

AR56

Powerful Assets for the Growth Ahead

PanCanadian
Petroleum
Limited

Annual Report
1997

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PANCANADIAN IS A POWERFUL ENERGY COMPANY. THE STRENGTH OF OUR ASSET BASE – HISTORICALLY, NOW AND INTO THE NEXT MILLENNIUM – IS THE MILLIONS OF ACRES OF UNDEVELOPED LAND THAT WE OWN IN WESTERN CANADA. BUILDING ON THE STRENGTH OF THIS LEGACY SINCE OUR FOUNDING IN 1971, WE HAVE DRAMATICALLY INCREASED OUR ASSETS OVER THE LAST DECADE.

Powerful

TODAY WE ARE ONE OF THE LARGEST PRODUCERS OF CRUDE OIL AND NATURAL GAS IN CANADA AND A LEADING MARKETER OF CRUDE OIL, NATURAL GAS AND NATURAL GAS LIQUIDS. AND WE ARE READY TO CONTINUE OUR PROFITABLE GROWTH. PANCANADIAN'S SHARES TRADE ON THE TORONTO, MONTREAL AND ALBERTA STOCK EXCHANGES UNDER THE SYMBOL PCP.

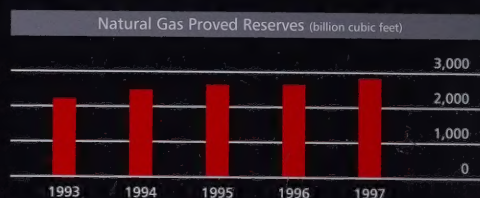
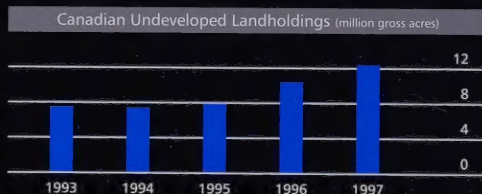
OPERATING HIGHLIGHTS

	1997	1996	% Change
Daily Production			
Crude oil and field natural gas liquids (<i>barrels</i>)	140,000	146,500	(4)
Empress plant (<i>barrels</i>)	13,200	11,600	14
Natural gas (<i>million cubic feet</i>)	744	722	3
Working Interest Wells Drilled (<i>gross</i>)	1,820	1,221	49
Proved Reserves			
Crude oil and field natural gas liquids (<i>million barrels</i>)	411	308	33
Natural gas (<i>billion cubic feet</i>)	2,852	2,644	7

FINANCIAL HIGHLIGHTS

<i>(\$ millions, except as indicated)</i>	1997	1996	% Change
Revenues	\$ 5,400	\$ 2,958	15
Cash Flow	961	1,001	(4)
Per share (\$)	3.82	3.99	
Net Income	550	546	(5)
Per share (\$)	1.51	1.38	
Dividends Per Share (\$)	0.40	0.40	
Capital Expenditures,			
Excluding Acquisitions and Dispositions	1,156	756	50
Return on Average Shareholders' Equity (%)	13.2	15.5	





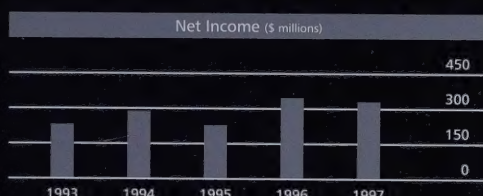
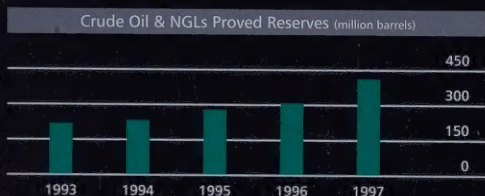
Assets For The

“With a strong asset base, clear strategies and highly capable people working in a new and dynamic business unit structure, PanCanadian is poised for continued profitable growth.”

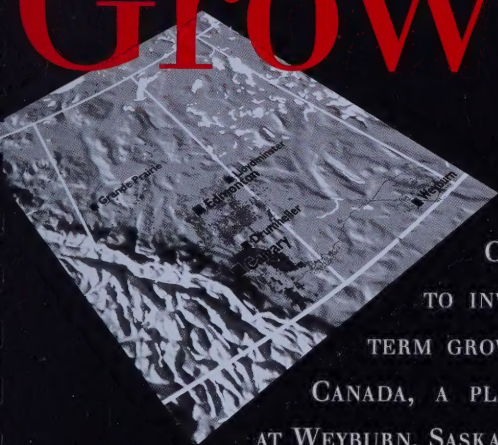
P

AN CANADIAN'S MOST POWERFUL ASSET IS ITS VAST LANDHOLDINGS OF 11 MILLION GROSS ACRES IN WESTERN CANADA. LARGELY UNDEVELOPED, OUR LAND POSITION HAS ENORMOUS POWER FOR OUR FUTURE GROWTH. PAN CANADIAN HAS APPROXIMATELY FIVE MILLION NET ACRES OF UNDEVELOPED FEE LAND. BECAUSE WE OWN THE MINERAL RIGHTS ON THIS FEE LAND, OUR PRODUCTION IS ROYALTY-FREE AND SUBJECT ONLY TO A MINERAL TAX. 🚀

TO CAPITALIZE ON THIS UNPARALLELED POSITION, WE HAVE AN AGGRESSIVE AND BALANCED EXPLORATION PROGRAM IN WESTERN CANADA, ENHANCED BY OUR ACTIVITY ON CANADA'S EAST COAST, IN THE GULF OF MEXICO AND IN SEVERAL INTERNATIONAL REGIONS. 🚀 THE COMPANY'S FINANCIAL STRENGTH AND CONTINUED FOCUS ON PROFITABLE GROWTH ARE EXEMPLIFIED BY OUR STRONG BALANCE SHEET



Growth Ahead



AND A DOUBLE "A" CREDIT RATING THAT ARE UNSURPASSED BY ANY OTHER OIL AND GAS COMPANY IN CANADA. 🚧 THIS FINANCIAL STRENGTH HAS ENABLED US TO INVEST IN LARGE PROJECTS THAT WILL DELIVER LONG-TERM GROWTH, INCLUDING HEAVY OIL PROPERTIES IN WESTERN CANADA, A PLANNED CARBON DIOXIDE MISCIBLE FLOOD PROJECT AT WEYBURN, SASKATCHEWAN, AND EXPLORATION IN THE GULF OF MEXICO.

🚧 BUT IT IS THE INTELLECTUAL AND CREATIVE SPIRIT OF EACH AND EVERY PANCANADIAN EMPLOYEE THAT WILL POWER OUR FUTURE GROWTH. TOGETHER, WE SHARE A COMMITMENT TO ADD VALUE THROUGH THE COMPANY'S CONTINUED FOCUS FOR 1998 WHICH IS TO: GROW THROUGH DRILLING; MANAGE COSTS; USE CAPITAL EFFECTIVELY; AND MAKE SELECTIVE ACQUISITIONS. LINKED TO THESE ACTIVITIES WILL BE THE RESEARCH, DEVELOPMENT AND IMPLEMENTATION OF NEW TECHNOLOGY TO IMPROVE PROFITABILITY AND ENHANCE BUSINESS PRACTICES. 🚧 THIS TECHNOLOGICAL LEADERSHIP, COMBINED WITH AN EFFECTIVE DEMONSTRATION OF MARKETING EXPERTISE, ENVIRONMENTAL RESPONSIBILITY AND COMMUNITY SUPPORT, HAS STRENGTHENED OUR REPUTATION FOR EXCELLENCE. 🚧 WITH THIS RICH INVENTORY OF POWERFUL ASSETS, PANCANADIAN IS READY FOR THE GROWTH AHEAD.

Letter To Our Shareholders



E HAVE RESTRICTED THE COMPANY TO ENSURE THAT THOSE WHO ARE ACCOUNTABLE FOR THE WORK CLEARLY UNDERSTA

O

David A. Tuer

CCASIONALLY, A LOOK IN THE REARVIEW MIRROR REVEALS A LANDSCAPE THAT ONE IS PLEASED TO LEAVE BEHIND. AT OTHER TIMES, A BACKWARD LOOK CAN PROVIDE IMPORTANT HINTS ABOUT THE ROAD AHEAD. IN RETROSPECT, 1997 CONTAINED A BIT OF BOTH FOR PANCANADIAN. 🚩 IN 1997, OUR

COMPANY EXPERIENCED OPERATIONAL DIFFICULTIES ASSOCIATED WITH RAPID GROWTH IN AN INDUSTRY SUSCEPTIBLE TO THE VAGARIES OF NATURE AND INTERNATIONAL COMMODITY MARKETS. WHILE THE CANADIAN OIL AND GAS INDUSTRY UNDERTOOK UNPARALLELED CAPITAL SPENDING IN A VERY BUOYANT ECONOMY, WE SAW THE PRICE OF WEST TEXAS INTERMEDIATE OIL DECLINE FROM A HIGH OF US\$26.62 IN JANUARY TO A LOW OF US\$17.60 IN DECEMBER. HIGHER COSTS, OPERATIONAL DIFFICULTIES AND INCREASING COMPETITION FOR SCARCE RESOURCES CAUSED US TO REVISE OUR PRODUCTION FORECASTS THROUGHOUT THE YEAR AS WE ADJUSTED OUR PROGRAM TO FIT THE OPERATING ENVIRONMENT.

The impact of these crosscurrents is reflected not so much in our strong financial results, but more in our operating performance relative to the high standards we have set for ourselves.

Last year in my Letter to Shareholders, I indicated that to meet our objectives, PanCanadian's corporate structure would need to be significantly altered so that we could drive decision-making and accountability much deeper into the organization. I believed

This task of "organizing" proved to be more far-reaching and time-consuming than I had anticipated, and no doubt, it caused us to lose both focus and momentum during some of the year.

Fundamental change has proven to be neither easy nor swift. The restructuring also took on an added dimension at mid-year with our acquisition of CS Resources.

Despite the challenges we encountered, I am convinced that these actions will prove to be a

minds of our management and employees, I expect we will reap the rewards of the investment in intellectual capital we have made in 1997.

We also made progress on the physical asset side of our balance sheet. As the Western Canadian Sedimentary Basin becomes an ever more mature area, higher risk exploration plays an increasingly critical role in replacing our reserves. I am pleased to report that our aptitude for these more

HOW THEIR EFFORTS IMPACT OUR SHAREHOLDERS' INVESTMENT. DESPITE A TUMULTUOUS YEAR IN THE CANADIAN OIL PATCH

that a new organizational structure would better prepare our Company to meet a changing future. And further, I believed it was best to address our structural needs in anticipation of this future, rather than react to circumstances as they were thrust upon us.

In April, we decided that our objectives could best be realized by separating our various operating districts into distinct, and largely autonomous, business units. Each would have a specific geographic focus and each would concentrate on maximizing value in a relatively narrow field of operations.

watershed for PanCanadian. Our new structure will enable us to better manage a growing entity in a way that will create shareholder value as never before.

And, while heightened industry-wide competition and our own internal issues affected our operating performance in 1997, I am confident that our actions position us to resume our historical production growth and achieve greater profitability.

Clear targets have been established for our various business units that ensure a balance between short-term and long-term results, and our employee incentive programs have been amended to incorporate important concepts such as Economic Value Added ("EVA")* and Total Value Added in our internal performance measures. As these concepts take further root in the

risky ventures has kept pace with our appetite for risk.

In late 1997, PanCanadian made several significant discoveries in the less explored and deeper horizons of the Western Canadian Sedimentary Basin. In every sense, this is "wildcat" exploration, in that it is occurring in stratigraphic sections of this oil and gas basin in which relatively few wells have been drilled. To date, only about 20 percent of the drilling in Western Canada has occurred below the more densely explored Cretaceous structures. And with each success in these deeper horizons, we gain a more complete understanding of the potential that PanCanadian lands in Western Canada continue to hold.

* EVA is a trademark of Stern Stewart & Co.

International discoveries
World-class extraction facility at Empress

Large royalty-free fee

Aggressive and balanced exploration programs

CO₂ project at Weyburn

Marketing expertise

Huge land position in Western

Light oil production and exploration opportunities
on Canada's East Coast

PANCANADIAN ADDED 122 MILLION BARRELS OF OIL EQUIVALENT TO ITS PROVED RESERVE BASE - A HIGHLY SUCCESSFUL

Our overall exploration and development program added 122 million barrels of oil equivalent - or more than 156 percent of our 1997 total production. This reserve figure excludes the benefits of these higher risk ventures which occurred late in the year.

Looking forward, our primary focus continues to be the exploitation of our significant land base in Alberta and Saskatchewan. Our acquisition of CS Resources is an affirmation of our belief in the future of the Western Canadian oil and gas industry. It is an investment in the present, but more importantly, it is a stake in the future. It recognizes the inescapable fact that oil in the shallower horizons, and light crude in

general, is increasingly scarce. Heavy oil and oil sands will play an ever more dominant role in our business. With an unparalleled resource base and our mutual history of exploiting technology, the marriage of CS Resources' and PanCanadian's heavy oil assets creates an entity that is highly capable of meeting the challenges inherent in the larger exploitation of this resource.

Likewise, we will invest more than \$1 billion over the next 15 years at Weyburn, where our Company is developing one of the largest enhanced recovery projects in North America. By injecting carbon dioxide ("CO₂") into the Weyburn field, we will increase the recovery of crude oil from one of Canada's largest reservoirs. The CO₂ will be purchased and transported by

pipeline from North Dakota, removing millions of tonnes of greenhouse gas from potential emission in North America.

PanCanadian also stepped into new frontiers in 1997 in the deep water of the Gulf of Mexico where we participated in one of the deepest wells ever drilled in this region. Called Llano, this prospect is currently awaiting further evaluation. But results from our first well have been very encouraging. PanCanadian has a 20 percent interest in this well, which was drilled to a total depth of more than 25,000 feet. Further appraisal of this discovery is anticipated in early 1998. We now hold interests in a total of 18 blocks in the deep water of the Gulf of Mexico.

Highly **capable** people
landholdings Environment, community and
cultural leadership
Strong financial position
Canada Technology leadership and **creativity**
Significant heavy oil assets
Exploration potential in the Gulf of Mexico

EXPLORATION EFFORT BY ANY MEASURE. PANCANADIAN'S BALANCE SHEET REMAINS AMONG THE STRONGEST IN THE INDUSTRY.

In 1998, we anticipate spending approximately \$40 million of our capital budget in the higher risk portion of our North American portfolio, primarily focusing on the Gulf of Mexico and on Canada's East Coast, where we plan to drill at least one exploration well by mid-year.

Our pursuit of expansion in international areas is also poised to begin paying dividends on the faith we have placed in this strategy. A quaintly-named well called "Woollybutt", located off the coast of Australia, is our most successful discovery to date, and could prove to be a cornerstone of our international portfolio. The initial well flowed at a rate of 7,600 barrels per day, and preliminary testing indicated that this field should be a commercial discovery. An

appraisal well drilled in December has added to our confidence in this project, but the size of the field will not be accurately determined until further drilling has been carried out. PanCanadian has a 40 percent interest in this discovery.

Elsewhere, our foothold in the North Sea was made more secure with the approval of a development plan for the Waveney gas field in the United Kingdom.

Originally discovered in 1996, the Waveney field contains an estimated 84 billion cubic feet of natural gas. PanCanadian holds a 14 percent interest in this development, which is expected to begin production in October 1998.

In Venezuela, PanCanadian and its partner are undertaking a reservoir reactivation project in Lake Maracaibo which will see oil production starting in late 1998.

We continue to pursue a number of other exciting possibilities throughout the world which are described in some detail in the operations section of this report.

Looking ahead through 1998 and beyond, I remain confident. While it appears that oil and gas prices will remain unstable through much of this year, our strong balance sheet and dynamic organization provide PanCanadian with the flexibility to meet the challenges.

In January 1998, we began to reap the fruits of our efforts to reduce our gas transportation costs as a result of the successful conclusion of the Alberta Energy and Utilities Board "Load Retention Service" ("LRS") hearing.

Sparked by the proposed construction of the Palliser Pipeline, the LRS decision will trim as much as \$23 million a year from our gas transportation costs, providing PanCanadian with a tremendous competitive advantage for the foreseeable future.

We expect to see our oil and gas production grow in 1998, while our new focus on business units will ensure very competitive operating costs.

Our international ventures will

indeed, every Canadian. I believe we have come to a crossroads in our consideration of the environment. The path we follow must lead us toward change and a rethinking of corporate responsibility.

There is ongoing debate around the science of climate change which is centred on two observations – the concentration of carbon dioxide in the atmosphere is rising and the temperature of the earth's surface is increasing. While it is hard to

Taken together with the action of every other Canadian company and every Canadian citizen, we expect to make a difference.

In conclusion, I would like to thank every individual shareholder, employee and Board member for their continuing support of PanCanadian during the year.

I look forward to working on your behalf in the coming months.

As a result of our reorganization during 1997, there have been a number of changes in the senior

THIS FINANCIAL STRENGTH WILL ENABLE US TO WEATHER ANY ECONOMIC UNCERTAINTY DURING THE COMING YEAR.

begin to generate cash flows in 1998 as we see modest production startups in natural gas from the North Sea and oil from Venezuela.

I expect our investment in organizational capability and our focus on capital efficiency will pay dividends in 1998 and into the future.

The theme of this year's Annual Report is "Powerful Assets for the Growth Ahead." Our commitment is to continue to lever these powerful assets into increasing shareholder value.

Finally, I find it both necessary and appropriate to comment on the negotiations and agreement reached in Kyoto, Japan on global climate change. This is a subject that concerns us all – PanCanadian shareholders and employees, and

isolate the direct cause and effect of these phenomena, I believe it would be irresponsible to ignore the issue of global warming.

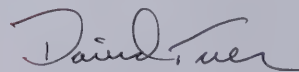
For PanCanadian, this is an important juncture. We must accelerate our plan to address what can, and should, be done – not because we know with certainty that climate change is occurring, but because we cannot ignore the possibility.

PanCanadian is committed to the development of an action plan which must involve all partners; a plan that involves both action to develop solutions and continuing research that will build on our current knowledge.

In the future, we will advise you, our shareholders, of our plan and its impact. As a company, our contribution to the problem is small. But our contribution to the solution must be significant.

management of the Company. These changes are reflected on Page 84 of this report. In addition, I would like to thank Donald Love for his tireless efforts as a member of PanCanadian's Board of Directors. Mr. Love, who will retire in April, joined the Board in 1979. He is currently Chairman of the Human Resources Management and Compensation Committee.

ON BEHALF OF THE BOARD,
DAVID A. TUEB



PRESIDENT &
CHIEF EXECUTIVE OFFICER
FEBRUARY 6, 1998

"The theme of this year's annual report is "Powerful Assets for the Growth Ahead." Our commitment is to continue to lever these powerful assets into shareholder value."

David A. Tuer, President & Chief Executive Officer

TRIKINGLY PORTRAYED IN BLACK AND WHITE, THE VISIBLE COMMITMENT OF ASSETS SHOWN ON THESE PAGES WILL GENERATE





GROWTH TODAY AND WELL INTO THE NEXT CENTURY: ONE OF THE LARGEST LANDHOLDINGS IN WESTERN CANADA, MUCH OF

Our land is our strength. We own approximately 11 million gross acres of primarily undeveloped land in Western Canada. Through multiple activities, our resourceful people are creating value from this extensive land base.

- Constructing facilities.
- Implementing a robust new financial system.
- And making plans for exploiting the tremendous potential of our Wainwright area.

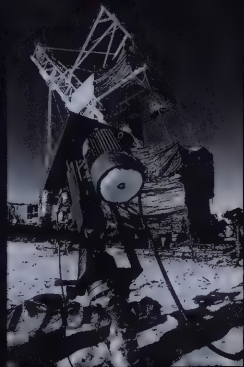


Drilling costs in 1997 did not increase, and on many projects actually decreased. These results are attributable to better project planning, management and teamwork, and demonstrate the early success of our 1997 reorganization into business units.

SAFETY-FREE, AND MOST OF IT UNDEVELOPED. A STRONG FINANCIAL POSITION. AGGRESSIVE AND BALANCED GROWTH



DEGRADING. A PLANNED CO₂ PROJECT AT WEATHERS, SASKATCHEWAN, SHOWCASES HEAVY-DUTY ASSETS. EXTERNAFFIX



For our engineering technology advancements, PanCanadian received a 1997 Alberta Science and Technology Leadership Award for Outstanding Commercial Achievement. Our work on technologies such as rodless downhole pumps, downhole oil/water separation and multi-lateral wells, and our commitment to collaborative technology development, earned us this award.





DISCOVERIES. MARKETING EXPERTISE. PRODUCTION AND EXPLORATION ON CANADA'S EAST COAST. A WORLD-CLASS EXTRACT

Farther afield in a new frontier for us, PanCanadian has become active in the deep waters of the Gulf of Mexico, where we are appraising our first discovery well. 🌊 Internationally, two oil discoveries offshore northwestern Australia hold promise for commercial production in the near future. 🌍 In Canada, PanCanadian has earned a solid reputation for community support and technological leadership. Our Students' Choice Awards program garnered 1,700 entrants in 1997.

PanCanadian is one of the largest producers of conventional crude oil in Canada and one of the country's biggest producers of natural gas. We are also a leading marketer of crude oil, natural gas and natural gas liquids, embracing an integrated approach that is highly successful and distinctive among our peers. With this approach and our rich inventory of powerful assets, PanCanadian is ready for the growth ahead.

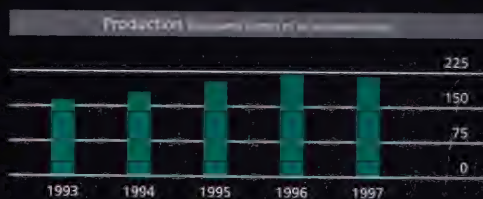
ACILITY AT EMPRESS, ALBERTA. ENVIRONMENTAL, COMMUNITY AND CULTURAL LEADERSHIP. AND THE HIGHLY CAP



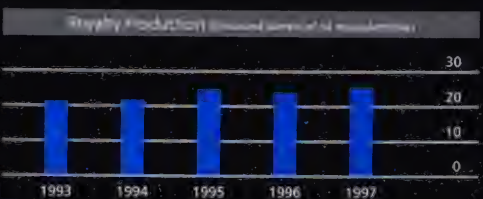
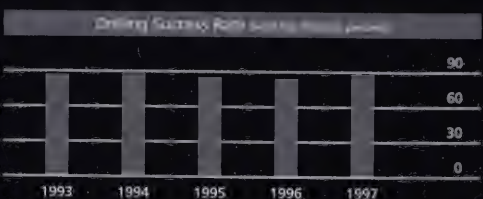
ACROSS THE PRAIRIE LANDSCAPE IN A CHECKERBOARD PATTERN
AROUND THE STEEL TRACKS OF THE CANADIAN PACIFIC RAILROAD IS
PANCANADIAN'S LAND POSITION, A POWERFUL ASSET THAT IS FUNDA-
MENTAL TO THE GROWTH OF OUR OPERATIONS. OUR MAJORITY SHARE-
HOLDER, CANADIAN PACIFIC, EARNED THIS LAND AS PARTIAL PAYMENT

PanCanadian

FOR CONSTRUCTING THE TRANSCONTINENTAL RAILWAY, AND IN
1971, AMALGAMATED ITS ENERGY HOLDINGS INTO OUR COMPANY,
PANCANADIAN PETROLEUM LIMITED. TODAY OUR OPERATIONS ALSO
INCLUDE LAND POSITIONS ON CANADA'S EAST COAST, IN THE DEEP
WATERS OF THE GULF OF MEXICO, OFF THE COASTS OF AUSTRALIA
AND THE UNITED KINGDOM – ALL OF THEM POWERFUL ASSETS TO
FUEL THE GROWTH AHEAD.



OUR 1997 ACTIVITY REPRESENTED ABOUT 10% OF TOTAL INDUSTRY DRILLING IN CANADA. IN ADDITION, 808 WELLS WERE DRILLED ON LANDS LEASED OUT BY PARCANADIAN.



INTENT ON DELIVERING PROFITABLE GROWTH TO OUR SHAREHOLDERS, PANCANADIAN MUST CONTINUALLY EVALUATE THE BEST WAY TO ACCOMPLISH THIS. WITH OUR EXCEPTIONAL LAND BASE, ITS CONTINUED EXPLOITATION IS THE

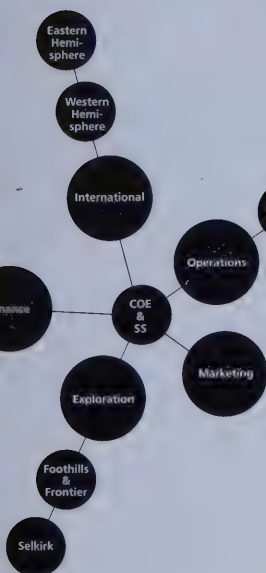
CORNERSTONE OF OUR GROWTH STRATEGY. PARTNERSHIPS, FARM-OUTS AND JOINT VENTURES WILL BE GROWING COMPONENTS OF OUR ACTIVITIES. IN PREPARATION FOR CONTINUED GROWTH, 1997 WAS A YEAR OF CHANGE AND

REALIGNMENT. WE EVALUATED OUR OPERATIONS AND ORGANIZED THE COMPANY INTO INDIVIDUAL BUSINESS UNITS. WHILE EACH BUSINESS UNIT IS DEFINED BY ITS OWN GEOGRAPHIC BOUNDARIES AND OPERATIONAL PLANS,

THERE IS A SHARED COMMITMENT TO THE COMPANY'S FOUR FOCUS AREAS FOR DELIVERING VALUE IN 1998: GROW THROUGH DRILLING; MANAGE COSTS; USE CAPITAL EFFECTIVELY; AND MAKE SELECTIVE ACQUISITIONS.

"WE ARE CONFIDENT OUR NEW ORGANIZATIONAL STRUCTURE WILL RESULT IN GREATER PRODUCTION GROWTH AND PROFITABILITY FROM OUR ASSET BASE."

Operations



IN 1997, WE ORGANIZED THE COMPANY INTO FIVE KEY GROUPS, EACH UNDER THE DIRECTION OF A SENIOR VICE PRESIDENT: OPERATIONS; EXPLORATION; INTERNATIONAL; MARKETING; AND FINANCE. THE ASSETS AND EMPLOYEES OF THE OPERATIONS GROUP HAVE BEEN BROUGHT TOGETHER WITHIN A WHOLLY OWNED PARTNERSHIP, PANCANADIAN RESOURCES. IT IS COMPRISED OF FIVE INDIVIDUALLY MANAGED BUSINESS UNITS. THE EXPLORATION GROUP ALSO INCLUDES TWO BUSINESS UNITS. TO MAINTAIN A HIGH LEVEL OF EXPERTISE AND EFFECTIVELY MANAGE OUR COSTS, WE HAVE ESTABLISHED CENTRES OF EXCELLENCE ("COE") AND SHARED SERVICES ("SS") THAT WORK WITH ALL BUSINESS UNITS.

1997 Operations Overview

Average oil & liquids production: 140,000 b/day
(includes royalty production of 15,600 b/day)

Average gas production: 744 mmcf/day
(includes royalty production of 99 mmcf/day)

Proved reserves: 694 mmboe

Reserve additions: 122 mmboe

Wells drilled: 1,820

Capital spending: \$1,136 million

Finding & development costs/boe: \$8.75

Operating costs/boe: \$5.60

Net acres of land: 16.5 million

Gross acres of fee land: 6.6 million



OPERATIONS

Palliser Business Unit

- Represents more than 40% of PanCanadian's total production and almost one-half of the Company's proved reserves
- Produces 72% of the Company's natural gas production now and contains significant growth potential for the future
- Holds 2.0 million net acres of largely contiguous fee land

The Palliser Business Unit encompasses an area explored in the mid-1860s by its namesake, Captain John Palliser, and contains large contiguous blocks of land on both sides of the Canadian Pacific Railway in southeastern Alberta. More than 90 percent of this acreage is fee land on which we pay mineral taxes but no Crown royalties. Primarily comprising the Company's assets in the Brooks and Drumheller regions, the Palliser area has historically played a key role in PanCanadian's growth and continues to hold immense potential for the future. If it were a stand-alone entity, the Palliser Unit, based on its production, would rank among Canada's top 15 largest oil and gas companies.

Palliser 1997 Data

Average oil & liquids production: 38,700 b/day
(includes royalty production of 4,300 b/day)

Average gas production: 533 mmcf/day
(includes royalty production of 47 mmcf/day)

Percent of PCP's production: 43%

Proved reserves: 304 mmboe

Percent of PCP's proved reserves: 44%

Wells drilled: 772

Capital spending: \$364 million

Operating costs/boe: \$3.12

Net acres of land: 2.0 million



PanCanadian South Central Alberta

While Palliser holds multi-zone potential for both oil and gas, approximately two-thirds of the unit's production is natural gas. Much of this is shallow gas production, which is recognized as a best-practice area for PanCanadian. Our dominant land position and ability to drill wells quickly – within hours – and at a low cost – as little as \$60,000 each – continues to provide the Company with highly profitable returns. These wells produce natural gas at daily rates varying from 50,000 cubic feet to 1 million cubic feet and, with the existing infrastructure, production can be tied-in immediately. As a result, finding and developing costs are low, averaging \$0.54 per thousand cubic feet in 1997, as are operating expenses, which were \$0.21 per thousand cubic feet.

The new Load Retention Service ("LRS") on the NOVA pipeline system, a distance-based fee system negotiated by PanCanadian in late 1996 with regulatory approval in November 1997, will significantly reduce the cost of transporting natural gas from the Palliser area for many years. The service, which began on January 1, 1998, results in PanCanadian paying 15.5 cents per thousand cubic feet to transport gas produced in the load retention area, which is largely the lands within the Palliser Business Unit. This rate is approximately 40 percent lower than the tariff that PanCanadian would have paid NOVA for transportation service.

While the Palliser Business Unit was formed principally to exploit our large reserve base of natural gas,

almost 50 percent of the Company's oil production came from this area in 1997. In addition, oil production in the Palliser Business Unit is some of our lightest, averaging approximately 29° API. PanCanadian operates approximately 650 oil wells in the area.

Our plans for maximizing the potential of this strong asset base are to optimize the multi-zone oil and gas potential and manage our operating costs. We plan to accelerate development of the shallow gas in the upper Cretaceous zone, explore and develop the hydrocarbons within the mid-depth lower Cretaceous formations and explore the untapped potential in deeper zones as well. To accelerate this development, we are pursuing farm-outs and joint ventures. Cost management will occur through economies of scale, better utilization of facilities and efficient timing of deliveries from the area's abundance of productive reservoirs.

South Central Alberta Business Unit

- Covers one-quarter of Alberta and includes 50% of PanCanadian's gross acreage in Western Canada
- Represents 29% of PanCanadian's total production and 25% of the Company's proved reserves
- Potential growth from value-adding prospects

PanCanadian's South Central Alberta Business Unit covers an area of six million gross acres of land in the southeastern and central section of the province. One of

South Central Alberta 1997 Data
Average oil & liquids production: 48,600 b/day (includes royalty production of 9,000 b/day)
Average gas production: 139 mmcf/day (includes royalty production of 47 mmcf/day)
Percent of PCP's production: 29%
Proved reserves: 175 mmboe
Percent of PCP's proved reserves: 25%
Wells drilled: 701
Capital spending: \$275 million
Operating costs/boe: \$5.83
Net acres of land: 4.8 million

the most powerful assets in South Central Alberta is our five million acres of fee land, of which only 21 percent has been developed. In 1997, oil represented 66 percent of total production, primarily from our Sparky project near Wainwright. Oil from the Sparky formation is 18-22° API. With a low decline rate, the expected economic life of these reservoirs is twice the Company's average.

Rich with potential, exploration and development in the Sparky formation has been a success for PanCanadian and is the main reason for South Central's current bias in favour of oil development. Total project expenditures to date have been \$165 million of which \$131 million was invested in 1997. Compared with 1996, the year-end production rate has climbed 40 percent to more than 8,500 barrels per day, and proven reserves have increased by 20 million barrels of oil equivalent.

Technology has contributed to the success of the Sparky project. Mega-Bin, a proprietary 3-D seismic technique, continues to provide much better reservoir definition and has contributed to an average development drilling success ratio of 90 percent at Sparky, with an average finding and development cost of \$6.60 per barrel of oil equivalent.

Another major oil-producing region in this Business Unit lies near Provost, Amisk, Consort and Thompson Lake, or the "PACT" area, which produced an average of 18,000 barrels of oil per day in 1997.

Natural gas exploration and development is ongoing in three areas where we have large land positions: the Midlands, particularly the Westeros region; Crossfield; and Lethbridge. All of these areas are strong undeveloped assets with a natural gas infrastructure that is underutilized. The LRS rate with NOVA will help to unlock the potential of these natural gas resources.

A major opportunity for growth in the South Central Alberta Business Unit is to exploit its potential through drilling. To accelerate the area's development, we are pursuing industry partnerships, joint ventures and farmout agreements. In 1998, we will allocate a larger percentage of our capital toward exploration and create a better balance between oil and gas production.

PanCanadian Heavy Oil



Heavy Oil Business Unit

- Operational problems in 1997
- Acquisition of CS Resources Limited ("CS Resources") added a powerful base of assets and technology
- Pelican Lake production to triple in 1998

In our Heavy Oil Business Unit, PanCanadian experienced several problems during the year that led to 7,000 fewer barrels of production per day than planned and higher operating costs than we had targeted.

Among the difficulties were the failure of smaller-diameter production pipe to live up to our expectations, surface access issues in the Hayter area and excess water production at our Bodo facility. Layered upon these operational issues, a wet and cold spring and an unseasonably warm fall limited our access to well sites. Further, a highly competitive marketplace resulted in the departure of several of our heavy oil personnel.

These factors contributed to our decision to acquire CS Resources, a purchase that became effective July 15, 1997. The acquisition and integration of CS Resources has strengthened PanCanadian's asset base of heavy oil properties and technical people, and provided new technologies for both horizontal drilling and enhanced recovery.

Heavy Oil 1997 Data

Average oil production: 28,100 b/day
(includes royalty production of 1,100 b/day)

Percent of PCP's production: 13%

Proved reserves: 131 mmboe

Percent of PCP's proved reserves: 19%

Wells drilled: 260

Capital spending: \$131 million

Operating costs/boe: \$10.02

Net acres of land: 0.9 million

Until the CS Resources acquisition, PanCanadian was predominantly involved in the primary recovery of heavy oil. CS Resources, however, had invested extensively in developing and applying enhanced recovery technology, in particular Steam Assisted Gravity Drainage ("SAGD"). The acquisition added a strong base of key assets, including Senlac and Christina Lake and several other properties with thick channel sands that are amenable to recovery using established technologies. The combined entity is a powerful player in heavy oil exploitation.

Primary production, a core competence of both PanCanadian and CS Resources, represented 92 percent of our heavy oil volumes in 1997. During the year, we proved the robust capability of Pelican Lake, a property acquired through CS Resources. Production quadrupled to a year-end exit rate of 6,000 barrels per day and operating costs were low, averaging only \$4.00 per barrel for the year. We expect dramatic results again in 1998 with projections for peak production of 18,000 barrels per day and a reduction in transportation costs when the new Pelican Lake pipeline is completed.

Advances in technology are boosting our primary recoveries of heavy oil. Horizontal drilling technologies, such as the Lateral Tie-Back System pioneered and patented by CS Resources and Sperry Sun Drilling Services, complement the success PanCanadian has had with slant-pad drilling, and rodless and progressive cavity pumps. We also piloted two technologies for the first time in 1997: polymer flooding at Pelican Lake; and enriched gas cycling at Elk Point.

Thermal recovery, while accounting for only eight percent of 1997 production, holds immense promise for the Company's future growth. At Senlac, we are applying SAGD technology using horizontal well pairs: one for injecting steam, the other for producing oil. CS Resources had been experiencing problems because of sand production with the first three well pairs. However, the fourth well pair, which was drilled in 1997 and began producing early in November, has averaged 1,000 barrels per day with peak production

reaching 1,500 barrels. The other three well pairs are now producing an aggregate of 1,300 barrels to 1,400 barrels of sand-free oil per day. Senlac contains 50 million barrels of heavy oil in place, of which 60 percent is potentially recoverable.

Continued refinement of SAGD technology will be critical in the development of Christina Lake, where we hold a 100 percent working interest in a quality reservoir with more than three billion barrels of bitumen in place. In 1998, we plan to continue our work on geological evaluations, engineering design, regulatory approvals and market development. In addition, we are evaluating the potential for thermal recovery on several of our other heavy oil properties. By matching the most appropriate technology to each reservoir, we expect to increase the recoverable reserves within our long-life resource base of heavy oil.

Weyburn Business Unit

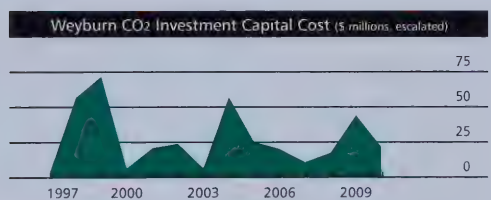
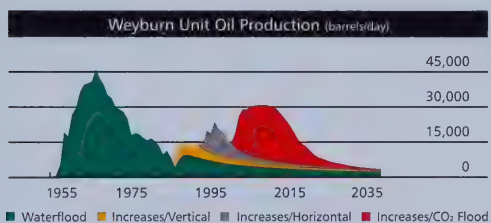
- Multiple-phase \$1.1 billion megaproject will add incremental production of 120 million to 140 million barrels over 25 years
- \$400 million capital, \$700 million in carbon dioxide ("CO₂") purchases staged over several years
- PanCanadian's largest single reserve base
- Highly specialized expertise of PanCanadian team is making it happen

In mid-1997, PanCanadian and its partners announced Canada's largest CO₂ miscible flood project to extend the life of the Weyburn field in southeastern Saskatchewan. The reservoir depth and medium gravity oil at Weyburn are ideal for CO₂ technology, which is one of the most economical methods of tertiary recovery. This project is a powerful asset – we expect production to increase to 20,000 barrels per day by the year 2002, rising to nearly 30,000 barrels per day in 2008.

Discovered in 1954, the Weyburn oil field had more than 1.2 billion barrels of oil in place, of which about 25 percent has been produced. Waterfloods, infill wells and horizontal drilling have offset declining production and will enable us to extract more of the oil in place. However, by injecting CO₂, we expect to boost recovery from the CO₂ injection area to 50 percent and add at least 120 million barrels to our production over the next

25 years. PanCanadian operates the field, and through an asset exchange in 1997, we increased our share to 69 percent from 44 percent.

The first phase of the project has been approved by PanCanadian and its partners. Dakota Gasification Co. is scheduled to build a 325 kilometre pipeline and supply the CO₂, a by-product of the Great Plains Synfuels Plant at Beulah, North Dakota. By late 1999, we will begin daily injection of 95 million cubic feet of CO₂, which under reservoir pressure acts as a solvent that squeezes oil from the porous rock and causes it to swell and flow to surface more easily. The CO₂ produced with the oil will be re-injected into the reservoir. Over the life of the project, CO₂ emissions in North America will be reduced by an estimated 14 million tonnes.



Weyburn 1997 Data

Average oil production: 12,700 b/day

Percent of PCP's production: 6%

Proved reserves: 43 mmboe

Percent of PCP's proved reserves: 6%

Wells drilled: 38

Capital spending: \$20 million

Operating costs/boe: \$3.75

Net acres of land: 0.1 million

East Coast Business Unit

- Copan Project proving its success and providing a springboard to other growth opportunities

PanCanadian is the operator and 50 percent owner of the Copan Project, Canada's first offshore oil-producing area. In less than two years, total recoverable oil from Copan's three fields has increased by 6.9 million barrels to 46.5 million barrels. This high quality production of light sweet oil is 52° API and receives a premium price.



East Coast 1997 Data

Average oil production: 4,900 b/day

Percent of PCP's production: 2%

Proved reserves: 5 mmbbls

Wells drilled: 2

Capital spending: \$17 million

Operating costs/b: \$26.46

Net acres of land: 9,000

When PanCanadian purchased Copan, the Cohasset field was producing a volume of 18,000 gross barrels per day from a converted jack-up drilling rig. In 1997, we reconfigured the Cohasset platform to function remotely and moved the rig to Panuke to reactivate the Panuke field. Although this scheduled activity halted production for approximately three months and an equipment malfunction interrupted it in November and December, we produced 3.6 million gross barrels of oil from all three fields in 1997 and expect to increase this to 7 million gross barrels in 1998.

Technology has played, and will continue to play, a leading role in our success on the East Coast. PanCanadian was the first company to use dual electrical submersible pumps that are remotely operated, which we installed at Cohasset in 1997. The Panuke platform jacket was modified to enable us to drill a sixth well and recover more reserves.

PanCanadian has seized the opportunity to gain an operating presence on the East Coast, and our strategy is to leverage that position for future growth. In 1998, we will drill three wells, using the multi-lateral technology we pioneered at Weyburn, Saskatchewan. At Panuke, we will be using a zero discharge drilling technology that will reduce the environmental impact of offshore drilling. Essentially, the drill cuttings will be ground into a fine powder and re-injected into an underground formation.

PanCanadian Foothills & Frontier



Foothills & Frontier 1997 Data

Wells drilled: 2

Capital spending: \$59 million

Net acres of land: 2.3 million

EXPLORATION

Foothills & Frontier Business Unit

- Three core areas
- Impressive portfolio in the Gulf of Mexico
- Drilling in Western Newfoundland in 1998

Creating new core areas in the frontier areas of North America where we can sustain profitable growth is the responsibility of this Business Unit. We are focusing on discovering large reserves in three areas: the Gulf of Mexico; the East Coast of Canada; and the complex geological structures along the foothills of Western Canada. While all of these areas pose geological risks, they also offer high rewards and the potential for high-impact discoveries. In 1997, we participated in drilling three exploratory wells to test prospects in two of our core areas and established the potential to drill several wells in other areas in 1998 and beyond.

In just a year, we have built a portfolio of 10 high-quality opportunities in the Gulf of Mexico through joint ventures with industry partners. We are concentrating our exploration in the deep water which holds the greatest potential for large reserves and is relatively unexplored. Well depths range from 20,000 feet to 25,000 feet. We have earned a 20 percent interest on the

four-block Llano prospect, where we have drilled our first well. The Llano well was drilled to 25,000 feet and encountered several hydrocarbon-bearing sands in the deep section. Evaluation of the results is continuing, and further work will require deepening of the well with a larger rig to reach the primary target zone.

On Canada's Scotian Shelf, our goal is to pursue exploration opportunities to extend and grow this core business area for PanCanadian. In 1997, the Company acquired two separate exploration licenses in the same basin as the oil-producing Cohasset/Panuke fields we operate. PanCanadian holds a 100 percent working interest in each of these new licenses. We have acquired seismic on the first 32,500 acre permit and plan to spud an exploration well in mid-April. Plans are being developed for shooting seismic on the other 173,000 acres in 1998.

Since 1995, PanCanadian and its partners have drilled three wells in Western Newfoundland resulting in one sub-commercial discovery. The quality of the oil and the reservoir potential encountered have encouraged us to continue, and we have a new prospect with high potential at the drill-ready stage. This onshore well in Western Newfoundland would be directionally drilled to an offshore target. Partner discussions and well planning are continuing, and we hope to spud in 1998. In addition, we have acquired approximately 740,000 acres of land with the same play concept on the Gaspé Peninsula of Quebec.

Another prime prospect area for us is the Foothills area of northeastern British Columbia. A discovery at Chowade in 1997, in which PanCanadian holds 50 percent, tested at five million cubic feet in the lower zone and three million cubic feet in the higher zone. Production from the lower zone will be tied-in early in 1998, and further drilling will be evaluated.

Selkirk Business Unit

- Potential for large discoveries of light oil and liquids-rich natural gas
- Growing exploration expertise
- Seven core areas: five for exploration; two producing
- Exploring and developing this powerful asset base through large-scale joint ventures

Selkirk 1997 Data
Average oil & liquids production: 4,200 b/day (includes royalty production of 1,000 b/day)
Average gas production: 42 mmcf/day
Percent of PCP's production: 4%
Proved reserves: 28 mmboe
Percent of PCP's proved reserves: 4%
Wells drilled: 39
Capital spending: \$162 million
Operating costs/boe: \$4.12
Net acres of land: 2.1 million (excludes deep rights under other business units)



The Selkirk Business Unit encompasses a large geographic area from northeastern British Columbia to Manitoba. Within this area, Selkirk holds mineral rights to all zones on more than two million acres of undeveloped land, excluding the shallow zones within the boundaries of the other business units. In addition, Selkirk is responsible for another 11 million acres in the deeper and less explored geological formations that underlie many of our other business units.

Selkirk's two producing areas are in Alberta at Wembley and Ferrier. Since the Business Unit was formed in June 1997, we have significantly increased production at both properties.

In our exploration areas, six significant discoveries were drilled in 1997 – two oil and four natural gas. At Rosebud, Alberta, where PanCanadian has demonstrated expertise in Devonian plays, oil from a delineation well was producing more than 600 barrels per day by year-end. We will continue to explore these discoveries through 100 percent working interest positions and joint ventures.

Our Selkirk activity is focused on three priorities: to explore in the higher-risk, higher-impact zones for light oil and liquids-rich natural gas; to select plays and implement activities that will maximize results; and to extend our exploration and reduce our risk by

encouraging farmouts and joint ventures on our lands. Of the exploratory wells that we drilled in Selkirk in 1997, 17 were drilled with industry partners. At year-end, approximately 50 areas had been identified for joint ventures. Negotiations are underway on half of them to further develop this powerful asset base. By increasing our farmout activity in 1998, we plan to maintain our significant well-count activity and reduce our exploration risk and finding costs.

INTERNATIONAL

- Three offshore oil discoveries, two in Australia and one in the United Kingdom ("U.K.")
- Oil field reactivation project in Venezuela
- New gas field development in the U.K.

For the International Business Unit, 1997 was an important year of progress in rationalizing our asset base. To concentrate on areas that we believe hold greater potential, we relinquished some of our international holdings. As of July 1, we sold our 25 percent interest in the Samotlor Services Project in Russia to our



partner. Because of the limited reserve potential and uncertainties surrounding export markets and infrastructure, we discontinued exploration contract discussions in Kazakhstan. Negotiations for the sale of our interests in The Netherlands were also concluded successfully in December.

Additions to our assets have included two oil discoveries in Australia and one in the U.K., an oil field reactivation project in Venezuela, a new gas field development in the U.K., and new exploration acreage in Africa, Australia and the U.K.

Australia

In May, we discovered light oil (48.5° API) at the Woollybutt 1 exploration well on the Northwest Shelf of Australia. The discovery, in which we hold a 40 percent interest, tested at 7,600 barrels per day, the upper limit of the testing equipment. Commercial viability is expected to be confirmed when the results of our first appraisal well, spudded in December, are fully evaluated.

PanCanadian also holds a 25 percent interest in the Tenacious 1 oil discovery well in the Timor Sea, 250 kilometres offshore Darwin, Australia. It too, flowed at the testing equipment limit of 7,600 barrels of light oil (48.2° API) per day. We plan to drill an appraisal well in 1998.

International 1997 Data

Wells drilled: 6
Capital spending: \$87 million
Net acres of land: 4.4 million
New countries entered: 3

South America

PanCanadian acquired its first interest in South America through a successful bid for an offshore block in the Venezuelan Third Operating Agreement Round in June 1997. The B2X-70/80 oil field in Lake Maracaibo originally contained approximately 1.2 billion barrels of oil in place, of which only eight percent has been produced. In this 20-year project, PanCanadian will benefit from any oil produced above a declining base line – initially around 6,000 barrels a day. By applying the latest drilling, completion and production technology, we expect to develop incremental production beginning in the fourth quarter of 1998, rising to 20,000 barrels per day in a few years. A new drilling rig has been ordered for this project, in which PanCanadian has a 50 percent initial interest. We plan to acquire further exploration and production projects in South America.

U.K. North Sea

Early production is also anticipated from the Waveney gas field in the North Sea. With estimated recoverable reserves of 84 billion cubic feet of natural gas and pipeline and processing infrastructure nearby, production is expected to begin in the fourth quarter of 1998. PanCanadian has a 14.29 percent interest in the field.

In the highly competitive 17th License Round, PanCanadian and its partners were awarded three frontier exploration licenses in the deep waters off the northwest coast of Scotland. We plan to drill our first well in the area late in 1998.

PanCanadian has a 20 percent interest in an oil discovery made in 1997 in Block 22/22c in the central North Sea. The joint venture expects to drill an appraisal well in 1998.

Africa

Our Libyan contract, signed in May 1996 and covering Blocks NC184 and NC185 in the North Sirte Basin, was ratified in April 1997. PanCanadian is the operator and holds a 75 percent interest in this exploration project. A seismic survey began in February 1998, and we plan to drill the first exploration well in 1999.

Off the eastern coast of South Africa, PanCanadian has a 20 percent interest in Durban Basin Block 17/18, a frontier exploration area that covers 14.5 million gross acres and is largely unexplored.

Looking Ahead

Our international capital budget will be directed toward developing the Company's existing projects and to evaluating new opportunities near our areas of focus in Australia, South America, the U.K., and Africa. We intend to continue our pursuit of current and near-term production opportunities through the acquisition of producing interests, reactivation of mature oil fields and rapid development of exploration successes. In these endeavours, we will exploit PanCanadian's state-of-the-art drilling capability and new technology in areas such as downhole oil/water separation and heavy oil production.

MARKETING BUSINESS UNIT

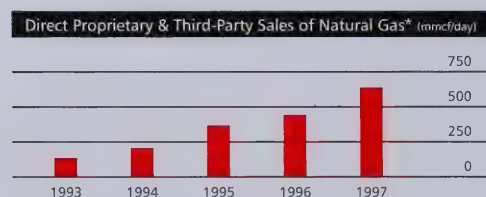
- Integrated approach is highly successful and distinct among peers
- Marketed 435,000 barrels of oil equivalent per day in 1997: 190,000 barrels of oil; 1.9 billion cubic feet of natural gas; and 55,000 barrels of natural gas liquids ("NGLs")
- Increasing volumes from third parties represented 56% of 1997 marketing

PanCanadian's Marketing Business Unit is a powerful and unique asset. By integrating our marketing with the Company's exploration and production activity, PanCanadian has demonstrated value by reducing costs, ensuring market for our products and identifying emerging trends that enable us to realize opportunities. PanCanadian's marketing is driven by three strategies: broaden the opportunities and eliminate the market and transportation barriers for expanding both our exploration and production; expand our influence to maximize value; and communicate market influences within the Company.

Natural Gas

A new force in natural gas marketing will emerge across North America early in 1998. The new company, PanCanadian Energy Services, is the integration of PanCanadian's natural gas marketing group with that of our wholly owned partnership, National Gas and Electric L.P. Expecting to market more than two billion cubic feet of natural gas per day in 1998, PanCanadian Energy Services will have the market power to deliver value-creating opportunities to PanCanadian and its customers, now and in the years to come. With our equity production and third-party volumes in Canada, PanCanadian markets approximately six percent of Canada's daily gas production.

PanCanadian took the leadership role in creating a distance-based fee system as an alternative to the postage-stamp rate for transporting gas in Alberta. In 1997, the Alberta Energy and Utilities Board approved the new Load Retention Service ("LRS") on the NOVA



* Excludes sales to aggregators

pipeline system for PanCanadian and other shippers in the Palliser area. The LRS will save PanCanadian up to \$23 million per year, beginning January 1, 1998, through reduced transportation costs.

PanCanadian has applied to the National Energy Board to secure an export license to support our long-term transportation agreements to the United States. Approval of a 10-year license would provide supply security for our customers and greater flexibility for the Company. In addition, PanCanadian's incremental capacity of 100 million cubic feet per day on the Northern

Border system, effective November 1998, will increase our access to markets in the Mid-West United States.

In 1997, PanCanadian and its partner, CU Power International Limited, were given the green light to negotiate an electricity purchase agreement with BC Hydro. Plans call for constructing a \$200 million cogeneration plant in which PanCanadian would own a 50 percent equity interest. Fueled by natural gas, the proposed 240-megawatt plant at Port Alberni will supply electricity to Vancouver Island.

As part of the Company's integrated marketing strategy, our natural gas and liquids supply teams are working together to maximize the value of our large base of natural gas assets. Our goal is to fully utilize our expanding straddle plant capacity in Alberta and increase the Company's transportation capacity and marketing activity in Eastern Canada and the United States where we also own interests in storage and fractionation facilities.

Natural Gas Liquids

PanCanadian extracts NGLs from both field and straddle plants. In total, our production of NGLs averaged 26,400 barrels per day in 1997 compared with 25,200 barrels in 1996, up five percent despite an asset exchange that reduced our 1997 volume by approximately 1,500 barrels per day. In addition to this field and straddle plant production, PanCanadian receives revenue from third-party processing at Empress. All of our NGLs are marketed by two partnerships in which PanCanadian owns 75 percent: Kinetic Resources (LPG) and Kinetic Resources U.S.A.

We became the second shipper of NGLs on the Inter-provincial Pipe Line ("IPL") system in 1997, following a successful regulatory challenge that acknowledged our right to do so. This is a key event for the Company's future growth as it enables us to more fully utilize our downstream fractionation and marketing assets in the eastern regions of Canada and the United States. During the year, we increased our capacity to transport PanCanadian-controlled NGLs to 28,000 barrels per day, 16 percent more than last year. We expect further increases from phase two of IPL's system expansion.

At Empress, Alberta, PanCanadian holds interests in four straddle plants. Detailed engineering is underway for expansions at two of these plants that will increase natural gas processing capacity seven percent to 1.6 billion cubic feet per day, as well as provide for the extraction of an additional 4,000 barrels of ethane per day by the second quarter of 1999.

Under a long-term agreement, PanCanadian controls all NGLs currently extracted at the Younger plant at Taylor, British Columbia. An expansion at the Younger plant scheduled for completion in 1998 will raise the plant's processing capacity 88 percent to 750 million cubic feet of natural gas per day and provide ethane recovery of 10,000 barrels per day as well.

Crude Oil

PanCanadian, one of the largest sellers of oil in North America, marketed a daily average of 190,000 barrels of oil in 1997. This volume included all of our Canadian production, 21,000 barrels of synthetic oil from the Canadian Oil Sands Trust, about 45,000 barrels for the Alberta government and additional third-party production. In total, PanCanadian markets 10 percent of Canada's daily crude oil production.

These large volumes, combined with our innovative marketing techniques and financial resources, give us flexibility in today's complex marketplace. The main issues faced within our industry, which reduced PanCanadian's growth potential in 1997, were a lack of pipeline capacity that resulted in pipeline apportionment in the last quarter, and increasing volumes of heavy oil from Western Canada competing with those from Mexico and Venezuela.

PanCanadian has been proactive in finding solutions to these issues. The Company's acquisition of CS Resources gave us an interest in more than 200 miles of pipelines with transportation capacity of about 110,000 barrels of oil per day. This includes a 47.5 percent equity interest in the Manito Pipeline. We own 15 percent of the new Pelican Lake heavy oil

pipeline, which should be operational by the third quarter of 1998. We are selling oil on Canada's west coast and in other secondary markets to alleviate over-nominations on the IPL system.

CENTRES OF EXCELLENCE AND SHARED SERVICES

To achieve optimal corporate performance and pool resources across the business units, PanCanadian has established Centres of Excellence and Shared Services.

Centres of Excellence

Our Centres of Excellence are staffed by people with specialized expertise in areas such as geology, geophysics, engineering, safety and the environment – people who work in collaboration with each of the Company's business units.

Each Centre is responsible for maintaining a high level of expertise throughout the Company, setting corporate standards, exploring new technology opportunities, facilitating knowledge transfer and fostering operational improvements. A primary responsibility is enhancing technical expertise and working with the business units to ensure that all staff have the appropriate skills. In partnership with the business units, the Centres of Excellence work to establish performance standards, which are especially important in the areas of safety, environment and loss management.

Our Geophysics Centre has developed a new methodology called Lambda*Rho analysis. This method is a significant improvement over existing techniques and is beginning to improve our drilling results. The Geology Centre has successfully developed a suite of integrated subsurface techniques, including high-resolution sequence stratigraphy, that help us identify new play opportunities in areas previously thought to have been well explored.

The Engineering Centres also develop and deploy technology. An example is the Company's continuing automation initiative. PanCanadian is an industry leader in gas well automation; all of our significant operated gas wells are now connected to central control rooms using an integrated Supervisory, Control and Data Acquisition ("SCADA") system. We are now moving forward with a program to equip oil properties. This advancing technology enables us to minimize the time spent at individual properties, obtain prompt and accurate information that will improve our production measurement and reporting, increase our understanding of reservoir and well performance and further optimize our operations.

OUR SOCIAL VISION OUR COMPANY'S CONTINUED SUCCESS LIES IN THE CREATIVITY AND

INNOVATION OF OUR PEOPLE, AND IN THE WELL-BEING OF THE COMMUNITIES IN WHICH WE LIVE AND WORK.

WE WILL SUPPORT AND UPHOLD THEM. ♡ OUR HEALTH DEPENDS ON THE HEALTH OF THE AIR WE BREATHE, THE WATER WE

DRINK AND THE LAND THAT SUSTAINS US. WE WILL CONSERVE AND PROTECT THEM. ♡ OUR FUTURE

LIES IN THE HEARTS AND MINDS OF OUR CHILDREN. WE WILL NURTURE AND ENCOURAGE THEM.

Shared Services

We have also created several Shared Services groups to capitalize on the efficiencies of scale available through a centralized and focused effort. Key areas where we have established Shared Services groups include Drilling, Information Technology and Human Resources. Our centralized drilling and completions expertise enables us to be aggressive in pursuing well designs that reduce both capital and operating costs. We consistently manage one of the most active drilling programs in the industry efficiently, effectively and competitively. Our Information Technology department is implementing the Desktop Management Solution system to increase efficiency by rationalizing the Company's software applications and providing a centralized mechanism for cost-effective and timely support.

COMMUNITY INVESTMENTS

A company's reputation is one of its most powerful assets. To be the partner of choice for employees, industry and community organizations, a company must be known for operating with integrity, responsibility and efficiency. PanCanadian has earned that reputation, which has been reinforced by our 1997 activities.

We are committed to supporting and enriching community life. Indeed, we feel it is our responsibility. We sponsor a variety of programs and activities that focus on community and family, employment and education, the environment, and creativity and innovation because they are integral to our social vision. We are particularly proud of the PanCanadian Students' Choice

Awards, PanCanadian PlayRites and PanCanadian Wordfest, and our sponsorship of the Calgary-based Police and Community Telephone System.

PanCanadian's commitment to education is exemplified in several programs. In 1997, we agreed to sponsor an instructor training program called "Leading Learning in the 21st Century" at Mount Royal College in Calgary. Our contribution to the University of Saskatchewan sponsors distance learning. And to encourage environmental learning, we will be supporting the PanCanadian Applied Environmental Technical Centre at the Southern Alberta Institute of Technology.

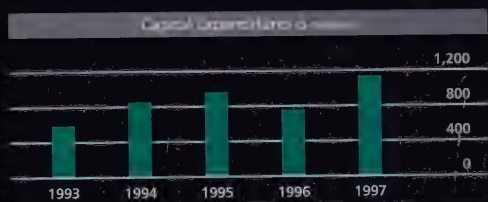
We support the communities in which we operate in many other ways – as a company and as individuals. PanCanadian employees are outstanding citizens who contribute to many worthy causes. Their generous gifts of time are supported through our Volunteer Incentive Program. In 1998, we will introduce a Volunteer Corps initiative to formalize, co-ordinate and focus our collective efforts.



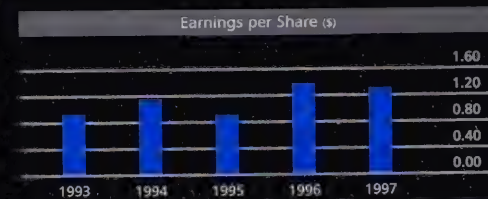
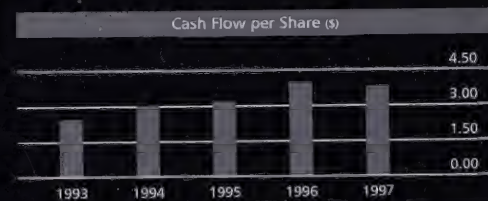
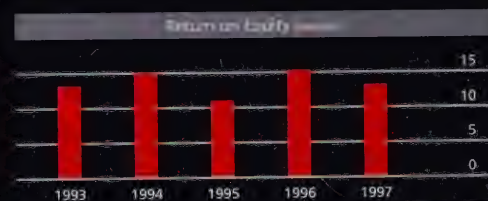
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PANCANADIAN REPORTED SOLID OPERATIONAL AND FINANCIAL PERFORMANCE IN 1997
A YEAR OF TRANSITION AND INTERNAL REALIGNMENT



PANCANADIAN CONTINUED TO SHOW SOLID FINANCIAL PERFORMANCE IN 1997. THE COMPANY REPORTED NET INCOME OF \$350 MILLION, OR \$1.31 PER SHARE, AND CASH FLOW OF \$961 MILLION, OR \$3.82 PER SHARE.

FOR 1997, THE COMPANY'S PRODUCTION OF CRUDE OIL AND NATURAL GAS LIQUIDS AVERAGED 140,000 BARRELS PER DAY, AND NATURAL GAS VOLUMES AVERAGED 744 MILLION CUBIC FEET PER DAY.

THE COMPANY ADDED 122 MILLION BARRELS OF OIL EQUIVALENT TO PROVED RESERVES IN 1997. THESE ADDITIONS REPRESENTED A PRODUCTION REPLACEMENT RATE OF 156 PERCENT.

CAPITAL EXPENDITURES TOTALLED \$1.136 BILLION IN 1997. THIS INCREASED CAPITAL SPENDING RESULTED IN THE DRILLING OF 1,820 WELLS, PRIMARILY IN WESTERN CANADA.

THE FOLLOWING DISCUSSION AND ANALYSIS HIGHLIGHTS KEY BUSINESS RESULTS AND STATISTICS FROM THE CONSOLIDATED FINANCIAL STATEMENTS AND ACCOMPANYING NOTES ON PAGES 53 TO 66 OF THIS ANNUAL REPORT. THE SUPPLEMENTAL INFORMATION SECTION, BEGINNING ON PAGE 69, PROVIDES FIVE-YEAR STATISTICS OF OPERATING AND FINANCIAL RESULTS.

MD&A

Significant assumptions and definitions of terminology used throughout this discussion and analysis include:

- oil equivalent volumes are converted at a rate of 10,000 cubic feet of natural gas to one barrel of oil;
- crude oil and field liquids production excludes natural gas liquids volumes extracted from the Company's Empress facilities in Alberta ("extracted liquids");
- production volumes of crude oil and natural gas and related revenues are reported on a before-royalty basis;
- reserves replacement, additions, and finding and development costs exclude the effect of acquisitions and dispositions;
- cash flow is cash from operating activities before net changes in deferred items and non-cash working capital;
- certain financial and statistical information for prior years has been reclassified to conform to the presentation adopted in 1997;
- financial information for specific business lines is presented prior to inter-company eliminations to reflect the economic performance of the line; and
- information provided with respect to 1998 and future years is the Company's best estimate of future events. Variations between expected and actual results should be expected in response to changes in economic and operating environments.

SUMMARY OF FINANCIAL AND OPERATING HIGHLIGHTS

Financial (\$ millions)	1997	1996	1995
Revenues	3,400	2,958	2,013
Net income	350	346	228
Cash flow	961	1,001	805
Production			
Crude oil and field liquids (thousand barrels per day)	140.0	146.3	131.5
Natural gas (million cubic feet per day)	744	722	719
Extracted natural gas liquids (thousand barrels per day)	15.2	11.6	12.7

Financial and operating highlights of 1997 include:

- net income and cash flow for the year of \$350 million and \$961 million, respectively;
- daily production averaged 214,400 barrels of oil equivalent, down less than two percent from 1996;
- the Company added 122 million barrels of oil equivalent proved reserves in 1997, representing a replacement rate of 156 percent, and total corporate finding and development costs were \$8.75 per barrel of oil equivalent - \$7.67 in Western Canada;

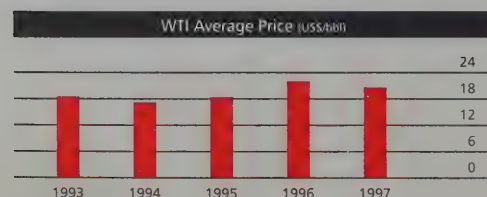
- PanCanadian successfully acquired all of the outstanding shares of CS Resources Limited effective July 15, 1997, representing average daily production of 15,400 barrels of oil equivalent;
- early in 1997, the Company disposed of a group of non-core producing properties in Western Canada representing production of 5,500 barrels of oil equivalent per day;
- for approximately three months, production from the Copan Project offshore Nova Scotia was shut down: just over two months for the rig's scheduled inspection and re-configuration; and a second time because of an unanticipated equipment problem; and
- PanCanadian sold its 25 percent interest in the Samotlor Services Project in Russia.

BUSINESS ENVIRONMENT

Strong crude oil prices in the first quarter of 1997 were followed by a general weakening of prices during the remainder of the year. Compared with 1996, crude oil prices on average were lower. The price of West Texas Intermediate ("WTI") benchmark crude oil ranged between a high of US\$26.62 per barrel in January and a low of US\$17.60 in December, and averaged US\$20.61 for the year.

The differential between light and heavy crude oil continued to widen throughout the year as well, reaching a maximum of US\$7.76 (WTI less Lloyd Blend heavy oil benchmark) in December. As a result, the Company realized an average crude oil price of Cdn\$21.17 per barrel prior to hedging in 1997, down 13 percent compared with 1996. Pipeline capacity limitations were also experienced in Western Canada in the latter part of the year, resulting in production apportionment in the fourth quarter.

WTI Average Price (US\$/bbl)	1997	1996	1995
Quarter 1	22.86	19.56	18.56
Quarter 2	19.94	21.61	19.54
Quarter 3	19.79	22.36	17.76
Quarter 4	19.94	24.52	18.15
Annual	20.61	22.01	18.40



Natural gas prices in North America strengthened considerably in 1997 compared with the prior year. As in 1996, Canadian gas prices were negatively affected by restricted pipeline capacity into the higher-priced U.S. markets as well as continued competition among Canadian producers. The Alberta Reference Price was strong in the first quarter, decreased over the spring and summer months, rebounded late in the third quarter and remained relatively strong throughout the fourth quarter.

Average Alberta Reference Price (\$/mcf)	1997	1996	1995
Quarter 1	2.26	1.70	1.35
Quarter 2	1.64	1.51	1.50
Quarter 3	1.72	1.39	1.18
Quarter 4	2.25	1.91	1.38
Annual	1.97	1.63	1.30

Strong prices for natural gas liquids, especially for propane, were received during the first quarter of 1997, declined throughout the second and third quarters and remained fairly stable for the remainder of the year.

The Canadian/US dollar exchange rate averaged \$0.723 during 1997 and was \$0.700 at year-end, compared with an average of \$0.733 and a year-end rate of \$0.730 in 1996.

ACQUISITIONS AND DISPOSITIONS

Disposition of Non-core Producing Properties

In three separate transactions, effective January 1, 1997, PanCanadian disposed of a group of non-core producing properties in Western Canada representing production of 5,500 barrels of oil equivalent per day.

Ownership Interest Increases in the Weyburn Project

Through a property exchange with Shell Canada Limited, PanCanadian increased its interest in the Weyburn field in Saskatchewan to 69 percent from 44 percent. Effective July 1, 1997, approximately 5,500 barrels per day from Shell's interest in Weyburn were exchanged for 1,500 barrels per day of natural gas liquids and 22 million cubic feet per day of natural gas from PanCanadian's interests in the Jumping Pound field in Alberta.

Disposition of Samotlor Services Project in Russia

Effective July 1, 1997, PanCanadian sold its 25 percent interest in the Samotlor Services Project in Russia. This sale did not have a material impact on the Company's earnings or cash flow. For the first six months of 1997, PanCanadian's share of sales from the Samotlor Services Project averaged 3,800 barrels of oil per day.

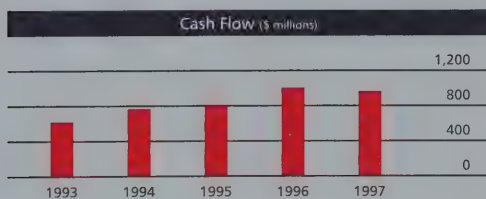
Successful Acquisition of CS Resources Limited

On June 18, 1997, PanCanadian announced the all-cash offer of \$16 per share for all of the shares of CS Resources Limited ("CS Resources") on a fully diluted basis. The acquisition of CS Resources was successfully completed on July 15, 1997. Existing cash balances were used to fund the purchase price of \$523 million, which included the assumption of \$58 million of debt. The acquisition of CS Resources is part of PanCanadian's long-term strategy to increase its heavy oil production profitability by expanding the Company's asset base of heavy oil properties and technological expertise.

FINANCIAL RESULTS

Net Income and Cash Flow

PanCanadian reported continued strong financial and operating performance in 1997 with net income of \$330 million and cash flow of \$961 million. In 1996, the Company reported net income of \$346 million and cash flow of \$1,001 million. Financial results for 1997 reflect lower crude oil prices and increased operating costs, partially offset by higher natural gas prices and volumes compared with 1996.



Revenues

Revenues (\$ millions)	1997	1996	1995
Operating	1,750.9	1,754.2	1,545.4
Marketing	1,629.5	1,144.8	445.9
Interest and other	19.7	58.6	21.9
	3,400.1	2,957.6	2,013.2
Crown royalties and similar payments	(141.8)	(171.6)	(162.3)
	3,258.3	2,786.0	1,850.9

PanCanadian's revenues, before Crown royalties and similar payments, totalled \$3,400 million, an increase of \$443 million from 1996. Revenues from marketing third-party production rose \$485 million, reflecting growing business expertise and increased market penetration achieved through our U.S. marketing partnerships. Crown royalties and similar payments decreased 17 percent, or approximately \$30 million, mainly because of lower prices and lower production of crude oil.

Miscellaneous revenue was lower in 1997 than in 1996, mainly as a result of the inclusion of two non-recurring gains in 1996: the divestiture of the Company's 10 percent interest in Syncrude in June 1996; and the partial conversion of PanCanadian's defined benefit pension plan. In 1996, these two events contributed \$28 million to miscellaneous revenues. Interest income was higher in 1997 as the Company held significantly larger cash balances in the first half of the year compared with 1996.



Expenses

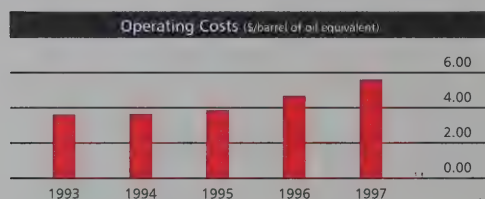
Expenses (\$ millions)	1997	1996	1995
Operating	474.4	456.1	427.9
Purchased product	1,602.4	1,098.1	426.3
Administrative			
Upstream	84.3	65.6	71.1
Marketing and other	26.7	24.8	16.4
Interest	67.4	62.7	59.3
Depletion, depreciation and amortization	552.9	611.6	527.9
	2,808.1	2,318.9	1,528.9

Operating Operating expenses for 1997 increased to \$474 million, four percent higher than in 1996. Per barrel of oil equivalent, expenses for working interest oil and gas were \$5.60, up 19 percent mainly because of high operating costs associated with the Company's heavy oil production, equipment and services shortages and the adverse weather conditions that were

experienced during the first half of the year. In addition, the Copan offshore operations are more cost-intensive than the operations of Western Canada, and this was compounded in 1997 when production at the Cohasset field was shut down for most of the last half of the year. Excluding the Copan operations, operating costs rose 19 percent to \$5.02 per barrel of oil equivalent.

Purchased Product Purchased product expenses increased \$504 million to \$1,602 million, reflecting the significant increase in third-party trading activities in 1997.

Administrative Prior to capitalization of associated costs, administrative expenses were \$153 million compared with \$121 million in 1996. The portion of administrative expenses charged to income for the year was \$111 million, up from \$90 million in 1996 as a result of increases related to CS Resources, and higher information technology and consultant costs. Per barrel of oil equivalent, administrative expenses related to upstream oil and gas activities averaged \$1.08 compared with \$0.82 in 1996. Full-time employees at year-end totalled 1,931, including employees of National Gas & Electric L.P. ("NG&E"), compared with 1,719 at the end of 1996.



Interest Interest expense was \$67 million, up seven percent from \$63 million in 1996 because of higher debt in the latter half of 1997. The Company continues to manage its interest rate exposure through the use of derivative instruments.

Depletion, Depreciation and Amortization The provision for depletion, depreciation and amortization was \$553 million, including \$21 million related to the acquisition of CS Resources. In 1996, the provision was \$612 million and included a \$70 million writedown (\$58 million after tax) of operations in The Netherlands, Libya, and

Kazakhstan. The combined rate of depletion and depreciation was \$7.17 per barrel of oil equivalent for Canadian operations, up from \$6.70 in 1996, reflecting the high costs associated with finding and developing new reserves in Western Canada.

Income Taxes

In 1997, the provision for income taxes was \$120 million, relatively unchanged from 1996. The 1997 provision was net of \$40 million in gains from the utilization of acquired tax losses, compared with \$85 million in 1996. Further details on the Company's tax provision are provided in Note 9 to the audited financial statements.

OPERATING RESULTS

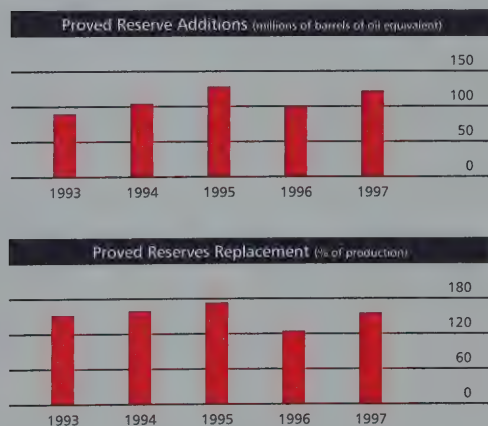
Daily Average Volumes	1997	1996	1995
Crude oil (thousand barrels)			
Western Canada	120.0	119.7	112.8
East Coast offshore	4.9	9.1	-
	124.9	128.8	112.8
Russia	1.9	5.9	4.7
	126.8	132.7	117.5
Field natural gas liquids (thousand barrels)			
	13.2	13.6	14.0
Total oil and field liquids (thousand barrels)			
	140.0	146.3	131.5
Natural gas (million cubic feet)			
Production	744	722	719
Sales	725	717	713
Extracted liquids (thousand barrels)			
Production	13.2	11.6	12.7
Sales	12.7	12.4	13.0
Synthetic crude oil (thousand barrels)			
	-	8.7	20.1

1997 was a year of transition for PanCanadian. The realignment of operations into business units to better manage the Company's higher level of activities delayed the planned growth in production. Growth intended for the latter part of 1997 was delayed into 1998 and as a result, production volumes for 1997 were lower than originally anticipated. In addition, higher operating costs were incurred on a number of the Company's heavy oil properties and production volumes were lower because of operational difficulties. With the realignment completed and with the progress that was made in 1997, the Company is anticipating a strong year in 1998.

PanCanadian's production averaged 214,400 barrels of oil equivalent per day in 1997, a decrease of less than two percent from 1996.

Production of crude oil and natural gas liquids decreased four percent to an average of 140,000 barrels per day. This decrease was mainly attributable to production shutdowns at the Copan Project offshore Nova Scotia and the mid-year disposal of Russian assets. Production from Western Canada averaged 120,000 barrels per day in 1997, unchanged from 1996. The acquisition of CS Resources and an additional interest in the Weyburn field were largely offset by the disposal of non-core assets and operational difficulties related to heavy oil production.

Daily production of natural gas averaged 744 million cubic feet in 1997, up from 722 million cubic feet in 1996. This increase was achieved despite the disposition, effective July 1, 1997, of PanCanadian's interest in the Jumping Pound area as part of the Weyburn property exchange, representing 22 million cubic feet per day of production. PanCanadian focused on increasing natural gas production to an optimum level in 1997. For the Company, this strategy minimized the impact of export capacity constraints in the Canadian natural gas market that persisted in 1997, while maximizing the benefit of strong natural gas prices that prevailed for the majority of the year.



On an oil equivalent basis, PanCanadian added 122 million barrels of proved reserves in 1997, representing a replacement rate of 156 percent.

Crude Oil

The price of WTI averaged US\$20.61 in 1997, a decrease of six percent compared to US\$22.01 in 1996. Excluding the effects of hedging activities, PanCanadian received an average price of \$21.17 per barrel during 1997, down from \$24.47 per barrel in 1996. Including the effects of hedging, PanCanadian received an average price of \$20.26 per barrel, eight percent lower than in 1996. These lower prices reflect the wider differential between light and heavy crude oil in 1997 and a larger proportion of heavy oil in the Company's production mix.

Western Canada PanCanadian's working interest production of crude oil averaged 107,000 barrels per day in 1997, which was comparable to 1996 volumes. Although 1997 production was still substantial, the productive capacity growth that was expected was not realized. The principal reasons for the shortfall in crude oil production compared with the Company's expectations were the cut back in heavy oil production because of rising costs and operational difficulties and the disposition of 3,500 barrels of daily crude oil production from non-core properties. This decrease was partially offset by production acquired mid-year through CS Resources. Pipeline capacity limitations also had more impact on the Company's oil production in 1997 than was anticipated. While production apportionment reduced PanCanadian's volumes in the fourth quarter, well shut-ins were minimized.

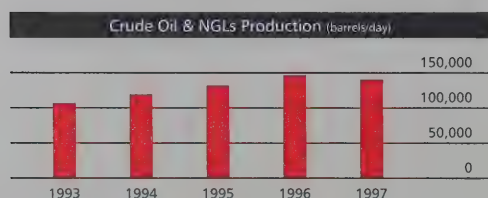
Western Canada	1997		1996	
	Volume	Daily Average	Volume	Daily Average
	(thousand barrels)		(thousand barrels)	
Production				
Working interest	39,043	107.0	39,454	107.8
Royalty interest	4,771	13.0	4,375	11.9
	43,814	120.0	43,829	119.7
	Amount	Per Unit	Amount	Per Unit
	(\$ millions)	(\$/bbl)	(\$ millions)	(\$/bbl)
Revenues (excluding hedging)				
Working interest	814.4	20.86	957.7	24.27
Royalty interest	103.0	21.59	105.9	24.22
Operating expenses	(252.6)	(5.77)	(204.8)	(4.67)
Crown royalties and similar payments	(117.3)	(2.68)	(117.0)	(2.67)
Operating margin	547.5	12.50	741.8	16.95

Approximately 28,000 barrels per day of the Company's production was heavy oil, up from 21,500 barrels per day in 1996. Of this increase, 8,000 barrels per day were produced from properties acquired through CS Resources mid-year.

Royalty interest volumes averaged 13,000 barrels on a daily basis, up nine percent from 1996 as a result of increased production from farmouts.

Revenues declined 14 percent in 1997 because of a decrease in price and a larger proportion of heavy oil in the production mix. Operating expenses for 1997 were \$5.77 per barrel, \$1.10 per barrel more than in 1996, reflecting significantly higher costs to put heavy oil wells on stream and increased trucking costs in the fourth quarter as a result of pipeline pro-rationing.

The Company recorded proved reserve additions of 64 million barrels of oil (excluding acquisitions and dispositions) in 1997, replacing 147 percent of 1997 production of 44 million barrels.



East Coast Net production from the Company's 50 percent owned Copan Project contributed 4,900 barrels per day in 1997, down from 9,100 barrels per day in 1996. The 1997 decrease resulted from two separate production shutdowns during the latter half of the year. In August, production at the Cohasset field was halted for about 10 weeks to allow for the rig's scheduled inspection and re-configuration in the Halifax harbor. The rig was returned to the offshore Panuke field, and production resumed at the end of October. In November, production was again shut down because of an anticipated problem with the rig's calm buoy. The problem was resolved very late in the year and production subsequently resumed. PanCanadian's share of production averaged approximately 8,100 barrels per day for the month of January 1998.

The Copan Project generated revenues of \$51 million and contributed \$3 million to the Company's operating margin. Operating expenses for this project have

a large fixed-cost component, making profitability more sensitive to prevailing crude oil prices and the frequency of production interruptions. The Company expects the field to reach its economic producing limit in 1999, at which time it will be decommissioned.

East Coast	1997		1996	
	Volume	Daily Average	Volume	Daily Average
	(thousand barrels)		(thousand barrels)	
Production	1,779	4.9	3,323	9.1
	Amount	Per Unit	Amount	Per Unit
	(\$ millions)	(\$/bbl)	(\$ millions)	(\$/bbl)
Revenues	51.2	28.76	100.4	30.21
Operating expenses	(47.1)	(26.46)	(47.4)	(14.26)
Crown royalties and similar payments	(1.0)	(0.58)	(1.8)	(0.54)
Operating margin	3.1	1.72	51.2	15.41

Russia Effective July 1, 1997, PanCanadian sold its 25 percent interest in the Samotlor Services Project in Russia. The Company decided to sell its interest in Samotlor because the project was only marginally profitable in a country with an unstable fiscal regime. PanCanadian's share of sales for the first six months of the year averaged 3,800 barrels per day, or 1,900 barrels per day for the entire year.

Russia	1997		1996	
	Volume	Daily Average	Volume	Daily Average
	(thousand barrels)		(thousand barrels)	
Sales	693	1.9	1,425	3.9
	Amount	Per Unit	Amount	Per Unit
	(\$ millions)	(\$/bbl)	(\$ millions)	(\$/bbl)
Revenues	11.1	16.08	24.4	17.14
Operating expenses	(5.2)	(7.54)	(6.2)	(4.37)
Crown royalties and similar payments	(2.6)	(3.70)	(8.2)	(5.78)
Operating margin	3.3	4.84	10.0	6.99

Natural Gas Liquids

The volume of natural gas liquids ("NGLs") PanCanadian produces is directly related to its production of natural gas, the natural gas liquids content of the Company's gas and recovery efficiencies of the field facilities.

Field Natural Gas Liquids Production of natural gas liquids from the Company's field facilities was down slightly from 1996. The decline in field production of NGLs is primarily a result of the July 1, 1997, disposition of 1,500 barrels per day of production from PanCanadian's interest in Jumping Pound.

Field NGLs	1997		1996	
	Volume	Daily Average	Volume	Daily Average
	(thousand barrels)		(thousand barrels)	
Production				
Working interest	3,891	10.7	4,081	11.1
Royalty interest	932	2.5	900	2.5
	4,823	13.2	4,981	13.6
	Amount	Per Unit	Amount	Per Unit
	(\$ millions)	(\$/bbl)	(\$ millions)	(\$/bbl)
Revenues				
Working interest	80.4	20.67	74.6	18.27
Royalty interest	18.8	20.18	15.5	17.24
Crown royalties and similar payments	(3.9)	(0.81)	(5.9)	(1.18)
Operating margin	95.3	19.77	84.2	16.90

Natural Gas Liquids Extraction PanCanadian owns an interest in four NGLs extraction plants that straddle two major gas transmission pipelines at Empress, Alberta. The rights to extract NGLs from natural gas transported through these pipelines are acquired from the natural gas shippers. Some of the gas supply is provided by the plant owners, with any remaining unused capacity filled by third-party processing. The Company's share of combined processing capacity is approximately 1.5 billion cubic feet per day.

NGLs Extraction	1997		1996	
	Volume	Daily Average	Volume	Daily Average
	(thousand barrels)		(thousand barrels)	
Production	4,812	13.2	4,237	11.6
Sales	4,626	12.7	4,550	12.4
	Amount	Per Unit	Amount	Per Unit
	(\$ millions)	(\$/bbl)	(\$ millions)	(\$/bbl)
Revenues (including miscellaneous)	112.0	24.20	104.5	22.96
Cost of sales*	(65.2)	(14.08)	(52.4)	(11.51)
Operating margin	46.8	10.12	52.1	11.45

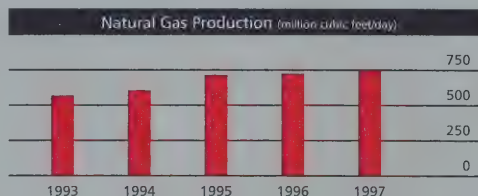
*Prior to internal usage eliminations for natural gas used as feedstock.

Sales of natural gas liquids from PanCanadian's interests in these straddle plants averaged 12,700 barrels per day in 1997, up from 12,400 barrels per day in 1996. This increase is because of additional production capacity at the PanCanadian-operated facility at Empress, which was commissioned in September 1996. Strong product prices, particularly for propane, were offset by higher feedstock prices, resulting in a 10 percent decrease in the margin.

Natural Gas

The Company's daily production of natural gas averaged 744 million cubic feet in 1997, up from 722 million cubic feet in 1996. PanCanadian added proved reserves of 522 billion cubic feet in 1997, replacing 192 percent of 1997 production of 272 billion cubic feet.

Significant strengthening of the natural gas market in North America resulted in the Company's average price for natural gas increasing to \$1.99 per thousand cubic feet in 1997 from \$1.60 per thousand cubic feet during 1996. Including hedging, PanCanadian received an average of \$2.07 per thousand cubic feet in 1997, up from \$1.41 in the prior year.



Transportation charges continue to constitute a significant portion of the costs associated with producing natural gas. In November 1997, the Alberta Energy and Utilities Board ("AEUB") approved the new Load Retention Service ("LRS") rates on the NOVA pipeline system for natural gas transmission services in southeastern Alberta effective January 1, 1998. This ruling will result in gas transmission savings of up to \$23 million for the Company in 1998. The new toll rate of 15.5 cents per thousand cubic feet affects up to 600 million cubic feet per day of PanCanadian production. The toll rate is fixed at an escalating rate over the 20-year term of the agreement.

In addition, PanCanadian continues to support new opportunities to expand its access to natural gas markets. Among these projects are the Northern Border and TransCanada pipeline expansions, both of which are expected to be completed in late 1998. PanCanadian has committed an additional 100 million cubic feet per day on the Northern Border pipeline for a 10-year period beginning in 1998, a portion of which may be supplied by third parties.

With the Company's continued focus on cost management, unit operating expenses were maintained at levels similar to 1996. Combined with the effect of improved prices, these costs led to a 40 percent increase in the operating margin for natural gas.

Natural Gas	1997		1996	
	Volume	Daily Average	Volume	Daily Average
	(million cubic feet)		(million cubic feet)	
Production*				
Working interest	235,653	645.6	229,604	627.3
Royalty interest	35,991	98.6	34,828	95.2
	271,624	744.2	264,432	722.5
Sales	264,722	725.3	262,405	717.0
	Amount	Per Unit	Amount	Per Unit
	(\$ millions)	(\$/mcf)	(\$ millions)	(\$/mcf)
Revenues (excluding hedging)*				
Working interest	475.0	2.02	366.7	1.60
Royalty interest	64.3	1.79	55.8	1.60
Operating expenses	(93.1)	(0.34)	(88.9)	(0.34)
Crown royalties and similar payments	(17.0)	(0.06)	(27.2)	(0.10)
Operating margin	429.2	1.58	306.4	1.16

*Prior to internal usage eliminations for natural gas which is upgraded and sold as natural gas liquids.

Marketing

In 1997, PanCanadian continued to market more third-party volumes of crude oil, natural gas and natural gas liquids through several partnerships and joint venture arrangements. The marketing of third-party production increases the Company's market presence and access, and ultimately improves netbacks.

The Company had marketing revenues of \$1,629 million, up 42 percent from 1996. The gross margin on these revenues was \$27 million in 1997 compared with \$47 million in 1996. The primary reason for this decline is increasing market competition resulting in tighter margins than in 1996.

Marketing (\$ millions)	1997	1996	% chg
Marketing revenues	1,629	1,145	42
Product purchases	1,602	1,098	46
Gross margin	27	47	(42)

Natural Gas Natural gas marketing revenue grew to \$1,428 million in 1997 from \$920 million in 1996. The cost of products purchased for resale was \$1,414 million compared with \$906 million in 1996. As a result, PanCanadian recorded a 1997 margin of \$14 million, unchanged from the previous year.

These results reflect the Company's 100 percent ownership position in NG&E, the Company's gas marketing vehicle in the United States. NG&E marketed more than one billion cubic feet of natural gas per day in 1997, of which 160 million cubic feet per day was PanCanadian production.

The Company continues to develop additional markets for its natural gas with strategic interests in cogeneration opportunities. In September, PanCanadian and its partner, CU Power International Limited, were given approval to negotiate an electricity purchase agreement with BC Hydro. Upon completion of these negotiations, construction of a cogeneration power plant fueled by natural gas will begin in early 1999 in Port Alberni, British Columbia. The plant will supply electricity to Vancouver Island. The Company also holds a 25 percent equity interest in a 110-megawatt facility near Kingston, Ontario, and supplies the plant with 22 million cubic feet per day of natural gas.

Natural Gas Liquids All of PanCanadian's field and extracted natural gas liquids are marketed by two partnerships in which PanCanadian holds a 75 percent interest: Kinetic Resources (LPG); and Kinetic Resources (U.S.A.). These partnerships also market natural gas liquids on behalf of other parties, which increases the volumes available for sale, thereby improving market access and netbacks. In addition to the liquids extraction facilities at Empress, PanCanadian also has interests in fractionation and storage facilities in Ontario and Michigan, major marketing areas for natural gas liquids.

Natural gas liquids marketing activities produced a margin of \$13 million on sales of \$192 million in 1997. In 1996, a margin of \$32 million was generated from sales of \$223 million. This decrease is a result of a significant price decline experienced in the first part of 1997, compared to the latter part of 1996.

Crude Oil In addition to marketing the proprietary production of the Company, PanCanadian markets third-party crude oil through long-term contracts. The Company receives a fee for providing these marketing services.

PanCanadian marketed a daily average of 190,000 barrels of crude oil in 1997 compared with 187,000 barrels in 1996. These volumes included all of the Company's production and approximately 66,000 barrels per day of crude oil from the Alberta Government and the Syncrude Oil Sands Project.

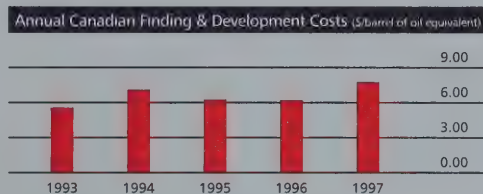
INTERNATIONAL VENTURES

To diversify and enhance its portfolio of producing assets, PanCanadian is involved in international exploration and development activity. To augment these activities, the Company continues to review and evaluate acquisition opportunities for current and near-term production. In addition to PanCanadian's interests in the U.K. sector of the North Sea, Australia and Libya, in 1997, the Company acquired acreage in South Africa and Venezuela. In 1997, the Company withdrew from The Netherlands, Kazakhstan and Russia as part of a business refocusing designed to utilize resources more effectively.

In 1997, PanCanadian spent \$87 million on activities in these countries. Several initiatives have significant long-term potential and should become greater contributors to PanCanadian's international operations in the near future.

CAPITAL EXPENDITURES AND RESERVES ADDITIONS

As in previous years, PanCanadian's capital expenditures of \$1,136 million in 1997 were mainly devoted to the exploration for, and development of, crude oil and natural gas in Western Canada. With this program, proved reserves of 122 million barrels of oil equivalent were added which represent a reserve replacement rate of 156 percent. The Company's finding and development costs were \$8.75 per barrel of oil equivalent compared with \$6.65 per barrel of oil equivalent in 1996. This increase was partially a result of additional capital expenditures internationally, including the Gulf of Mexico. The finding and development costs associated with Western Canada were \$7.67 per barrel of oil equivalent compared with \$6.13 per barrel of oil equivalent in 1996. This increase is mainly attributable to an escalation of industry costs.



MARKET RISK MANAGEMENT

In the normal course of its business, PanCanadian is exposed to market risks resulting from fluctuations in commodity prices, foreign currency exchange rates and interest rates. PanCanadian endeavours to achieve a steady, stable rate of growth in cash flow. To support this, the Company has adopted a strategy of managing its exposure to these risks using derivative instruments such as exchange-traded commodity futures and over-the-counter ("OTC") swaps. Through implementing strict guidelines and controls that govern the use of these instruments, the Company believes their use does not result in exposure to material risk of financial loss.

PanCanadian views its risk management program as a form of insurance that protects the Company's cash flow and net income during significant downturns in the market. This strategy is adopted with the understanding that in some circumstances, the opportunity to benefit from positive price and rate movements may not

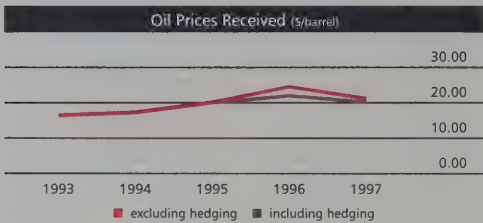
be fully realized on the Company's production and debt. However, PanCanadian selects hedging levels that it believes will provide downside protection from market risks while retaining significant opportunities to benefit from positive price and rate movements. Over the long term, it is anticipated the program will not result in a significant cost to the Company as losses during some periods will be offset by gains in others.

At December 31, 1997, PanCanadian had hedges in place for 1998 on approximately 11.2 million barrels of crude oil, which fix the average price at US\$19.46 per barrel. Hedges are in place to adjust the Company's natural gas pricing exposure to levels targeted by management. The Company also has hedges in place on currency, interest rates and crude oil differentials as disclosed in Note 12 of the consolidated financial statements. As of December 31, 1997, PanCanadian had unrealized losses of \$36 million associated with all market risk hedges put in place for future years.

Crude Oil

Substantially all of the Company's crude oil is sold for floating prices calculated with reference to the New York Mercantile Exchange ("NYMEX") WTI futures contract, the benchmark price used in Canadian markets. Exposure to changing crude oil prices is hedged primarily using WTI futures contracts, and fluctuating differentials for crude oil quality are hedged using OTC financial instruments.

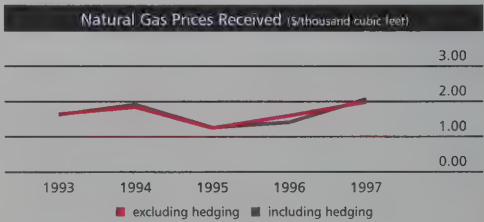
In 1997, the Company's crude oil hedging activities resulted in a loss of \$42 million, net of foreign currency hedging gains of \$35 million. These losses must be viewed in relation to PanCanadian's long-term risk management strategy.



Natural Gas

The Company sells its natural gas production in several North American markets where the prices are determined by local market conditions. Natural gas sales are made at either floating or fixed prices, depending on the customer's preference. NYMEX natural gas futures contracts or OTC financial instruments are used to adjust the resulting exposure to reflect the Company's risk management strategies. For 1997, PanCanadian's natural gas hedging activities resulted in a gain of \$21 million, including foreign currency hedging gains of \$17 million.

PanCanadian's participation in the natural gas liquids extraction business helps the Company manage its exposure to low natural gas prices. Usually, the natural gas liquids business earns higher profits when crude oil prices are high and natural gas prices are low. In addition, through initiatives such as cogeneration projects, PanCanadian continues to secure long-term markets for its natural gas production.



Foreign Currency and Interest Rates

All of the Company's sales of crude oil and a large portion of sales of natural gas and natural gas liquids are effectively denominated in US dollars. To reduce the associated market risk, the Company hedges its future revenue streams by selling US dollars at fixed rates in future periods through forward foreign currency exchange contracts and by denominating its long-term debt in US dollars. During 1997, foreign currency hedging activities generated a gain of \$52 million.

PanCanadian uses interest rate swaps, cross-currency interest rate swaps and forward foreign currency exchange contracts to manage its exposure to interest rates and to denominate long-term debt in US dollars. In all cases, the amounts, terms and conditions of the underlying debt obligations remain outstanding. During 1997, interest rate risk management activities resulted in a gain of \$11 million.

Credit Risk

The Company is exposed to credit-related losses in the event of non-performance by counterparties to financial instruments. PanCanadian does not expect any counterparties to fail to meet their obligations because of credit policies which limit transactions to counterparties of high credit quality. In addition, the Company does not believe that there are any significant concentrations of credit risk.

Operational Risk Management

PanCanadian faces geological, technical and economic risks associated with finding and developing reserves. As well, future economic and operating conditions and changes in technology play an important role in determining the volume of economically recoverable reserves. PanCanadian manages these different risks by developing a diverse portfolio of oil and gas assets. Through its operations, the Company is continuously working to improve existing technology and to develop and apply advanced technology effectively. PanCanadian is establishing expertise in various geographic areas with different geological compositions. Internationally, the Company's portfolio of investments is diverse but is balanced in terms of political, economic and geographic risks, and in maturity and longevity of investment. PanCanadian manages these risks through insurance coverage which is continually reviewed and optimized.

In many areas of its business, PanCanadian is active in securing partnerships or working agreements with other companies whose experience, knowledge or market presence can lessen the risk.

Safety and the Environment

PanCanadian attempts to minimize any potential risks to public safety and the environment when transporting and handling certain materials and chemicals used in the oil and gas industry by establishing and using clear Company policies. The Company monitors its activities to provide reasonable assurance that its operations continue to comply with, or exceed, government regulations and generally accepted industry standards governing health, safety and environmental matters,

and to identify further opportunities for improvement. PanCanadian has developed comprehensive policies and procedures to deal with spill prevention, abandonment of wells and reclamation of facilities and surface land.

MANAGING CAPITAL RESOURCES AND LIQUIDITY

Financial Management

PanCanadian is committed to maintaining a strong financial position to take advantage of attractive investment opportunities that may arise and to increase its resilience to any significant declines in commodity prices. PanCanadian's debt was slightly greater than cash flow in 1997, largely because of the CS Resources acquisition, and debt to debt-plus-equity was 30 percent. To ensure continued financial strength and flexibility, PanCanadian intends to maintain debt levels within the range of one to one-and-a-half times cash flow.

With one of the strongest debt ratings of all Canadian petroleum companies, PanCanadian is able to minimize its cost of debt by accessing the public debt markets. In addition, PanCanadian's success in maximizing its overall return on capital further enhances the Company's strong financial position.

Operating Activities

As a result of lower crude oil prices and production, cash flow declined four percent in 1997 to \$961 million.

Financing Activities

PanCanadian's long-term debt increased to \$1,134 million at year-end 1997 from \$898 million at year-end 1996. Proceeds were used to fund the capital expenditure program.

No significant principal payments on the Company's debt are due until the year 2000, and the Company's risk management program has been successful in reducing effective interest rates on a significant amount of its debt. Note 6 to the financial statements provides more detail about the Company's debt structure.

Investing Activities

PanCanadian's 1997 capital program, exclusive of acquisitions and dispositions, totalled \$1,136 million, representing a reinvestment rate of 118 percent of cash flow. In 1996, the Company reinvested 75 percent of cash flow.

Effective July 15, 1997, PanCanadian purchased all of the shares of CS Resources Limited for \$523 million. The purchase price was largely funded by existing cash balances.

Decreased cash flow, along with the acquisition of CS Resources and a greater capital expenditure program, resulted in PanCanadian's working capital decreasing to \$36 million at December 31, 1997, from \$592 million at year-end 1996.

YEAR 2000 ISSUE

PanCanadian has established a project team to assess the impact of the Year 2000 issue on the Company's computer systems. The project is stewarded by an internal steering committee that provides quarterly updates to senior management. Significant progress was made in the detailed planning and remediation work in 1997, and the project plan will lead to the testing and correction of all deficient code and replacement of non-compliant hardware and software by the end of 1998. As the majority of PanCanadian's computer systems are relatively new, the Year 2000 issue presents a low internal risk to the Company. PanCanadian is also assessing the state of readiness of all critical trading partners with respect to this issue. The Company believes that it has sufficient resources available to complete the necessary remedial actions within appropriate time frames.

OUTLOOK

In 1997, PanCanadian's results were negatively affected by external factors, such as lower prices for crude oil, wider price differentials between light and heavy oil and pipeline capacity constraints. Additionally, the Company's results were affected by higher operating costs on a number of the Company's heavy oil properties and lower production because of operational difficulties.

While solid overall results were achieved in 1997, PanCanadian will continue to focus on improving the areas it can control: increasing profitable production; maximizing the prices received for this production;

managing costs; diversifying its portfolio of businesses; and enhancing overall productivity. The financial success of these initiatives will, to a large extent, be affected by the business conditions the Company faces in 1998.

As a result of its financial strength, PanCanadian has the necessary flexibility to adapt to change in the commodity price environment. The Company anticipates crude oil prices to continue to be volatile throughout 1998 and to be lower on average than in 1997. A major uncertainty is the potential contraction of the Asia-Pacific market, which has been the source of approximately 75 percent of the net increase in global demand for energy during the last decade. As well, price differentials for heavy oil are expected to widen further in 1998. Longer term, added upgrading capacity should result in increased demand for Canadian heavy oil and a reduction in price differentials.

The price for natural gas is expected to be lower in the first part of the year than in 1997 because of a warmer winter, and to strengthen later in 1998 mainly from expansions to the TransCanada and Northern Border pipeline systems. This added capacity to United States markets should lead to a narrowing of the basis differential between price postings in Alberta and NYMEX.

PanCanadian's planned capital program for 1998 is slightly less than \$1 billion; however, this is being continually monitored in light of the prevailing commodity price environment. Approximately \$800 million will be directed to exploration and development activities in Western Canada, with emphasis on increasing natural gas production as pipeline capacity opens up late in 1998, as well as expanding crude oil and liquids production. The Company will manage its heavy oil capital expenditure program as market fundamentals dictate. With this capital expenditure program, PanCanadian expects to drill about 1,250 wells in 1998. In addition, \$150 million will be allocated to international projects, including the Gulf of Mexico, and to the East Coast of Canada to strengthen the Company's portfolio of exploration and development assets and to follow up on several promising discoveries made in 1997.

With the Company's powerful asset base in Western Canada, PanCanadian will continue to strive to economically increase reserves and production, as well as develop and implement new technology to enhance recovery from its existing fields.

Management's Report

Management is responsible for all information contained in this annual report. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles, and include amounts based on management's informed judgements and estimates. The financial and operating information included in this annual report is consistent with that contained in the consolidated financial statements in all material respects.

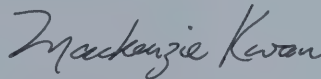
To assist management in fulfilling its responsibilities, systems of accounting and internal controls are maintained to provide reasonable assurance that financial information is reliable and accurate, and that assets are adequately safeguarded. The internal audit department monitors and evaluates compliance with, and the adequacy of, these controls.

External auditors, appointed by the shareholders, have independently examined the consolidated financial statements and conducted a review of accounting and internal controls to the extent required under generally accepted auditing standards. They have performed such tests as they deemed necessary to enable them to express an opinion on these financial statements.

The Board of Directors has appointed an Audit Committee, consisting of four directors who are neither employees nor officers of the Company. It meets regularly with management, the internal audit department and external auditors to discuss controls over the financial reporting process, auditing and other financial reporting matters. In addition, the Audit Committee recommends the appointment of the Company's external auditors, who are elected annually by the Company's shareholders. The Audit Committee has reviewed the financial statements and the contents of the annual report with management and the external auditors. The Board of Directors has approved the consolidated financial statements on the recommendation of the Audit Committee.



David A. Tuer
President and
Chief Executive Officer
February 26, 1998



Mackenzie M.L. Kwan
Senior Vice President and
Chief Financial Officer

PanCanadian Petroleum Limited

Auditors' Report

To the Shareholders of PanCanadian Petroleum Limited:

We have audited the consolidated balance sheets of PanCanadian Petroleum Limited as at December 31, 1997 and 1996, and the consolidated statements of income, retained income and changes in cash position for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1997 and 1996, and the results of its operations and the changes in its cash position for each of the three years in the period ended December 31, 1997, in accordance with generally accepted accounting principles.



Price Waterhouse
Chartered Accountants
Calgary, Alberta
February 6, 1998

Consolidated Balance Sheet

As at December 31 (\$ millions)	1997	1996
<i>Assets</i>		
Current assets		
Cash	\$ 2.2	\$ 16.2
Short-term investments	87.4	339.0
Accounts receivable	444.3	675.7
Inventories	73.5	65.6
	607.4	1,096.5
Property, plant and equipment, at cost (notes 3, 4)	8,839.8	7,223.3
Less accumulated depletion, depreciation and amortization	(4,039.6)	(3,481.5)
	4,800.2	3,741.8
Deferred charges, net of amortization, and other assets (note 5)	202.2	113.3
	\$ 5,609.8	\$ 4,951.6
<i>Liabilities and Shareholders' Equity</i>		
Current liabilities		
Short-term financing	\$ 44.3	\$ -
Accounts payable and accrued liabilities	526.9	504.3
	571.2	504.3
Long-term debt (note 6)	1,133.7	897.8
Deferred credits and liabilities (note 7)	192.3	156.2
Deferred income taxes	1,093.2	1,002.1
Shareholders' equity		
Common shares - (note 8)		
Authorized - unlimited number		
Issued - 251, 671, 332 (1996 - 251, 158, 732)	60.4	51.0
Paid in surplus	41.8	41.8
Retained income	2,517.2	2,298.4
	2,619.4	2,391.2
	\$ 5,609.8	\$ 4,951.6
Commitments and contingencies (notes 9, 14)		

Approved by the Board:



Director



Director

Consolidated Statement of Income

For the years ended December 31 (\$ millions, except per share amounts)	1997	1996	1995
<i>Revenues</i>			
Operating – net	\$ 1,609.1	\$ 1,582.6	\$ 1,583.1
Marketing	1,629.5	1,144.8	445.9
Interest and other	19.7	58.6	21.9
	3,258.3	2,786.0	1,850.9
<i>Expenses</i>			
Operating	474.4	456.1	427.9
Purchased product	1,602.4	1,098.1	426.3
Administrative – upstream	84.3	65.6	71.1
– marketing and other	26.7	24.8	16.4
Interest on long-term debt	67.4	62.7	59.3
Depletion, depreciation and amortization	552.9	611.6	527.9
	2,808.1	2,318.9	1,528.9
<i>Income before income taxes</i>	450.2	467.1	322.0
<i>Provision for income taxes (note 9)</i>			
Current	51.1	52.9	46.0
Deferred	69.4	68.4	48.2
	120.5	121.3	94.2
<i>Net income</i>	\$ 329.7	\$ 345.8	\$ 227.8
<i>Net income per share</i>	\$ 1.31	\$ 1.38	\$ 0.91

Consolidated Statement of Retained Income

For the years ended December 31 (\$ millions)	1997	1996	1995
<i>Retained income at beginning of year</i>	\$ 2,298.4	\$ 2,053.0	\$ 1,925.5
<i>Net income</i>	329.7	345.8	227.8
	2,628.1	2,398.8	2,153.3
<i>Less: Dividends</i>	100.6	100.4	100.3
<i>Related party transaction (note 9)</i>	10.3	–	–
<i>Retained income at end of year</i>	\$ 2,517.2	\$ 2,298.4	\$ 2,053.0

PanCanadian Petroleum Limited

Consolidated Statement of Changes in Cash Position

For the years ended December 31 (\$ millions, except per share amounts)	1997	1996	1995
<i>Operating activities</i>			
Net income	\$ 329.7	\$ 345.8	\$ 227.8
Amounts not requiring a current outlay of cash (note 13)	651.7	655.0	577.1
Cash flow	961.4	1,000.8	804.9
Net change in deferred items	(77.0)	42.3	(22.2)
Net change in non-cash working capital (note 13)	285.7	(305.2)	84.2
	1,170.1	737.9	866.9
<i>Financing activities</i>			
Increase in long-term debt	223.8	33.6	397.9
Issue of common shares	9.4	5.4	5.0
Dividends	(100.6)	(100.4)	(100.3)
Net change in non-cash working capital (note 13)	44.3	-	(0.3)
	176.9	(61.4)	302.3
<i>Investing activities</i>			
Conventional activities			
Petroleum, natural gas and mineral properties	(828.1)	(499.9)	(529.5)
Plant, production and other equipment	(308.1)	(248.7)	(415.2)
Oil sands mineral properties, plant and equipment	-	(6.9)	(20.2)
	(1,136.2)	(755.5)	(964.9)
Net (acquisitions) dispositions	(421.9)	314.9	(45.8)
	(1,558.1)	(440.6)	(1,010.7)
Net change in other assets	(21.0)	(26.7)	(36.9)
Net change in non-cash working capital (note 13)	(33.5)	64.9	(81.0)
	(1,612.6)	(402.4)	(1,128.6)
<i>Increase (decrease) in cash</i>	(265.6)	274.1	40.6
<i>Cash at beginning of year</i>	355.2	81.1	40.5
<i>Cash at end of year</i>	\$ 89.6	\$ 355.2	\$ 81.1
<i>Cash flow per share</i>	\$ 3.82	\$ 3.99	\$ 3.21
<i>Cash from operating activities per share</i>	\$ 4.65	\$ 2.94	\$ 3.46

Note: Cash is comprised of cash and short-term investments, net of current bank indebtedness.

Notes to Consolidated Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES

a) Consolidation

The consolidated financial statements include the accounts of PanCanadian Petroleum Limited and its subsidiaries and are presented in accordance with Canadian generally accepted accounting principles. A significant part of the Company's exploration, development, production and marketing activities is conducted jointly with others, and these financial statements reflect only the Company's proportionate interest in such activities.

b) Inventories

Product inventories are valued at the lower of average cost and net realizable value on a first-in, first-out basis. Materials and supplies are valued at cost.

c) Foreign Currency Translation

Foreign currency balances, including those of integrated foreign subsidiaries, are expressed in Canadian dollars on the following basis:

- Monetary assets and liabilities – at the year-end rate of exchange.
- Other assets and liabilities – at historical rates of exchange.
- Revenues and expenses – at monthly rates of exchange except provisions for depreciation and depletion which are translated on the same basis as the related assets.

Unrealized gains and losses on conversion to Canadian dollars of long-term monetary assets and liabilities are deferred and amortized over the remaining lives of the related items.

d) Full Cost Method Of Accounting

The Company follows the full cost method of accounting whereby all costs relating to the exploration for, and the development of, conventional crude oil and natural gas reserves are capitalized on a country-by-country cost centre basis. Costs accumulated within each cost centre are depleted and depreciated using the unit of production method, based on estimated proved reserves, with net production and reserves volumes of

natural gas converted to equivalent energy units of crude oil. Proceeds from disposal of properties are normally deducted from the full cost pool without recognition of gain or loss.

Costs of exploration in new cost centres, together with related land costs, are excluded from costs subject to depletion until it is determined whether or not proved reserves are attributable to the properties, or if impairment has occurred.

In determining the depletion and depreciation provisions for conventional crude oil and natural gas assets, the Company includes any excess of the net book value of those oil and natural gas assets over the unescalated, undiscounted future net operating revenues from its proved oil and natural gas reserves for each cost centre (ceiling test). A second ceiling test calculation is conducted on an enterprise basis, by including in the depletion and depreciation provisions any excess of the net book value of conventional oil and natural gas assets for all cost centres over the unescalated, undiscounted future net operating revenues from proved oil and natural gas reserves, less future general and administrative expenses, financing costs and income taxes. The ceiling test calculations use the Company's weighted average product prices prevailing at year-end.

e) Depreciation Of Plant And Equipment

Depreciation of conventional crude oil and natural gas plant, production and other equipment is provided for using the unit of production method. Natural gas liquids extraction facilities and other assets are depreciated on a straight-line basis over the estimated service lives of the assets.

f) Future Dismantlement And Site Restoration Costs

Estimated future dismantlement and site restoration costs of crude oil and natural gas assets are provided for using the unit of production method. Such costs for natural gas liquids extraction facilities are provided for over the estimated service lives of the assets. Expenditures incurred to dismantle facilities and restore well sites are charged against the related restoration liability.

g) Capitalization Of Costs

Expenditures related to renewals or betterments which improve the productive capacity or extend the life of an asset are capitalized. Maintenance and repairs, including workovers of the Company's producing wells, are expensed as incurred. Interest related to financing arrangements on major projects is capitalized during the development stage.

h) Retirement Plans

The Company has a defined benefit plan and a defined contribution plan. Under the defined benefit plan, the Company determines the cost of pension entitlements earned by its employees using the projected benefit method, prorated on service. This cost is charged to income as services are rendered, and reflects management's best estimates of expected plan investment performance, salary growth, future terminations, mortality rates and retirement ages of plan members. Adjustments which may be occasioned by plan amendment, changes in assumptions, and experience gains and losses are amortized on a straight-line basis over the expected average remaining service life of the employee group covered by the plan. Under the defined contri-

bution pension plan, the Company charges to income any cash payments made to the plan during the year.

i) Derivative Instruments

Derivative instruments are used by the Company to hedge its exposure to market risks relating to commodity prices, foreign currency exchange rates and interest rates. Unrealized gains and losses on derivative instruments used to convert the Canadian dollar principal of long-term debt to US dollars are amortized into income over the term of the related debt instrument. Unrealized gains and losses on all other derivative instruments used as hedges are recognized in income in the period that the hedged instrument is settled. The gain or loss is netted against the income or expense item which is hedged. Gains or losses realized on the termination of derivative instruments prior to their maturity are deferred and recognized in the period that the item which was hedged by the terminated instrument is recognized in income.

j) Reclassifications

Certain information provided for prior years has been reclassified to conform to the presentation adopted in 1997.

2. RELATED PARTY TRANSACTIONS

Company funds which were surplus to its day-to-day requirements were deposited in a Canadian chartered bank through Canadian Pacific Limited (the majority shareholder of the Company) and earned interest at competitive money market rates. In addition, the Company purchased materials and utilized services from other companies with which it is affiliated.

All such transactions have been conducted on an arm's length basis and are not material in relation to the Company's overall activities. At December 31, 1997, the Company had \$210.5 million of long-term financing from Canadian Pacific Securities (Ontario) Limited. Transactions are further described in Notes 6 and 9.

3. PROPERTY, PLANT AND EQUIPMENT

(\$ millions)	1997			1996		
	Cost	Accumulated Depletion, Depreciation & Amortization	Net	Cost	Accumulated Depletion, Depreciation & Amortization	Net
Conventional						
Petroleum, natural gas and mineral properties	\$ 6,259.2	\$ 2,966.4	\$ 3,292.8	\$ 5,044.6	\$ 2,577.7	\$ 2,466.9
Plant, production and other equipment	2,447.2	1,017.0	1,430.2	2,056.2	853.5	1,202.7
	8,706.4	3,983.4	4,723.0	7,100.8	3,431.2	3,669.6
Natural gas liquids extraction	133.4	56.2	77.2	122.5	50.3	72.2
	\$ 8,839.8	\$ 4,039.6	\$ 4,800.2	\$ 7,223.3	\$ 3,481.5	\$ 3,741.8

Administrative expenses related to exploration and development activities were capitalized as part of petroleum, natural gas and mineral properties expenditures and were \$42.4 million in 1997, compared with \$51.0 million in 1996. Capitalized

interest amounted to \$2.4 million in 1997 compared with \$2.3 million in 1996. At December 31, 1997, \$29.4 million of costs in foreign cost centres were excluded from depletable costs compared with \$51.7 million in 1996.

4. CORPORATE ACQUISITION

Effective July 15, 1997, the Company purchased all of the issued and outstanding shares of CS Resources Limited, a company engaged in the exploration for, and development of, petroleum and natural gas. The acquisition has been

accounted for by the purchase method, and the results of CS Resources Limited have been reflected in the Company's results of operations from July 15, 1997. This transaction has been accounted for as follows:

(\$ millions)		
Cash consideration paid	\$	522.9
Net assets acquired:		
Working capital	\$	14.0
Property, plant and equipment		537.5
Deferred income taxes		(23.6)
Site restoration costs assumed		(5.0)
	\$	522.9

5. DEFERRED CHARGES, NET OF AMORTIZATION, AND OTHER ASSETS

(\$ millions)		1997	1996
Unrealized foreign exchange losses	\$	41.7	\$ 11.5
Prepaid income tax installment		37.1	4.3
Computer systems development		31.7	13.1
Deferred pension charge		23.6	1.8
Leases – computer, vehicle and other		18.9	25.6
Other		49.2	57.0
	\$	202.2	\$ 113.3

6. LONG-TERM DEBT

(\$ millions)		Notes	1997	1996
Bank loans	(a),(i)	\$	36.8	\$ 31.4
Other long-term financing	(b),(i)		210.5	42.4
Commercial paper	(c),(h),(i)		50.4	–
Unsecured medium-term notes	(d),(g)			
7.645% due March 14, 2001 (US\$100.0)	(d1),(i)		143.0	137.0
7.9% due January 24, 2002 (US\$50.0)	(i)		71.5	68.5
8.1% due May 22, 2002 (US\$50.0)	(i)		71.5	68.5
8.4% due December 15, 2004	(d2)		100.0	100.0
7.5% due August 25, 2006	(d3)		100.0	100.0
			486.0	474.0
Unsecured debentures				
10.55% due January 4, 2000	(e),(g),(i)		150.0	150.0
8.75% due November 9, 2005	(f),(g)		200.0	200.0
		\$	1,133.7	\$ 897.8

a) Bank Loans

The Company has outstanding bank loans relating to the construction of a cogeneration plant which currently bear interest at 6.42% and are secured by the project facilities.

b) Other Long-Term Financing

Other long-term debt in 1997 represents financing from Canadian Pacific Securities (Ontario) Limited. The loan bears interest at an average rate of 4.34% and, because of its revolving nature, is classified as long-term. The 1996 amount represented financing with other outside parties.

c) Commercial Paper

The Company maintains a commercial paper program with an authorized maximum principal amount of Canadian \$500.0 million, or the equivalent in foreign currencies. Commercial paper issued under this program has a maximum term of 365 days, bears interest at prevailing market rates, and may be issued in Canadian or foreign currencies. Because of the revolving nature of this debt, it is classified as long-term.

d) Medium-Term Notes

During 1997, the Company renewed its medium-term note program, increasing the authorized principal amount from Canadian \$300.0 million to Canadian \$500.0 million. The notes may be denominated in Canadian dollars, or in foreign currencies, and may have maturities greater than nine months from their date of issue. The notes bear interest at either fixed or floating rates, determined by reference to market rates at the date of issue of the notes. The US dollar medium-term notes were issued under a United States medium-term note program which expired in 1995.

1) 7.645% Medium-Term Notes,

Due March 14, 2001 – US\$100.0 Million

With respect to this debt, the Company has entered into interest rate swap and option transactions which result in an effective fixed interest rate to the Company of 6.49% on US\$100.0 million.

2) 8.4% Medium-Term Notes,

Due December 15, 2004 – \$100.0 Million

With respect to this debt, the Company has entered into a series of interest rate and cross-currency interest rate swap transactions which result in an effective interest

rate of US three-month LIBOR minus 31 basis points on US\$73.1 million, the effective principal payable.

3) 7.5% Medium-Term Notes,

Due August 25, 2006 – \$100.0 Million

With respect to this debt, the Company has entered into a series of interest rate and cross-currency interest rate swap transactions which result in an effective fixed interest rate of 5.80% on \$100.0 million. The principal is effectively payable at US\$73.0 million as a result of these swaps.

e) 10.55% Debentures,

Due January 4, 2000 – \$150.0 Million

With respect to the 10.55% debentures, the Company has entered into a series of forward foreign currency exchange, interest rate swap, cross-currency interest rate swap, and interest rate option transactions which result in an effective interest rate of 8.34% on US\$109.5 million, the effective principal payable.

f) 8.75% Debentures,

Due November 9, 2005 – \$200.0 Million

The Company has entered into a cross-currency interest rate swap transaction with Canadian Pacific Securities (Ontario) Limited, effectively converting the issue into US\$146.0 million with floating rate interest. Subsequent interest rate and cross-currency interest rate swaps with other counterparties have resulted in an effective interest rate of US three-month LIBOR minus 35 basis points on US\$73.0 million and 6.70% on US\$73.0 million.

g) The Company has agreed that subject to certain exceptions, it will not create any mortgage or other charge on its assets unless the debentures and medium-term notes are secured.

h) Operating Facilities

Agreements with four Canadian chartered banks provide unsecured revolving lines of credit totalling \$425.0 million, which, at the Company's option, consist of loans and various other instruments. These lines of credit are available for general corporate purposes and in support of the commercial paper program. Loans are available in Canadian and US dollar funds, and bear interest at the banks' prime lending rates and the US base rates, respectively. The other instruments are also available in Canadian and US currencies at prevailing market rates plus bank fees.

i) Long-Term Debt Principal Payments Due Within Five Years

(\$ millions)	
10.55% unsecured debentures, due January 4, 2000	\$ 150.0
7.645% medium-term notes, due March 14, 2001 (US\$100.0)	143.0
7.9% medium-term notes, due January 24, 2002 (US\$50.0)	71.5
8.1% medium-term notes, due May 22, 2002 (US\$50.0)	71.5
Bank loans (1998 through 2002)	5.9

Because of the revolving nature of the long-term financing and commercial paper, there are no scheduled repayments.

7. DEFERRED CREDITS AND LIABILITIES

(\$ millions)	1997	1996
Future dismantlement and site restoration costs	\$ 116.4	\$ 98.4
Deferred hedging gains	36.0	46.5
Other	39.9	11.3
	\$ 192.3	\$ 156.2

8. STOCK OPTIONS

Pursuant to the terms of a stock option plan established in 1988, and revised in 1997, options may be granted to certain key employees to purchase common shares of the Company. All numbers in this note reflect a two-for-one split on May 8, 1997. At December 31, 1997, options to acquire 8,555,160 shares, out of a maximum 12.5 million shares, had been granted under the plan. As a result of cancellations of options totalling 272,000 shares, 4,216,840 shares are reserved for future option grants. Options granted prior to February 27, 1997 expire 10 years after the date granted. Options granted on and after February 27, 1997, expire five years after the date granted.

At December 31, 1997, options covering 6,267,160 shares (1996 – 2,358,100) at prices ranging from \$12.50 to \$28.30 per share were outstanding.

During the year, options to purchase 512,600 shares were exercised at prices ranging from \$14.00 to \$19.50, for a total consideration of \$9.4 million. Options to acquire 4,840,160 shares at \$26.00 to \$28.30 were granted during the year. Options were cancelled for 418,500 shares at \$19.06 to \$28.30.

There would be no material dilutive effect on earnings per share as a result of the exercise of share purchase options.

9. INCOME TAXES

The statutory rates of income taxes are reconciled to the effective rates as follows:

(\$ millions)	1997	1996	1995
Income before income taxes	\$ 450.2	\$ 467.1	\$ 522.0
Statutory rate	44.7%	44.6%	44.6%
Expected income taxes	\$ 201.4	\$ 208.5	\$ 145.5
Increase (decrease) resulting from:			
Provincial royalties and other levies	54.9	61.5	50.2
Resource allowance	(93.3)	(102.6)	(81.5)
Gain from utilization of income tax losses acquired	(40.5)	(85.1)	(20.4)
Other	(2.0)	39.4	2.4
	\$ 120.5	\$ 121.3	\$ 94.2
Effective rate	26.8%	26.0%	29.3%

The provision for deferred income taxes arises from timing differences in the recognition of revenues and expenses for income tax and accounting purposes.

These timing differences are as follows:

(\$ millions)	1997	1996	1995
Exploration and development allowances in excess of depletion	\$ 84.9	\$ 41.8	\$ 51.9
Capital cost allowances in excess of depreciation	35.0	30.0	8.1
Other	(50.5)	(3.4)	(11.8)
	\$ 69.4	\$ 68.4	\$ 48.2

In 1994, the Company purchased approximately \$177 million of non-capital losses ("1994 Losses") from Canadian Pacific Limited, an affiliate. A gain of \$20.4 million was realized in 1995 from the utilization of a portion of the 1994 Losses. In 1995, the Company purchased approximately \$239 million of non-capital losses ("1995 Losses") from Canadian Pacific Limited for \$69.4 million plus a provision for price adjustment not to exceed \$7.2 million, contingent on future economic events. In 1996, the Company utilized all remaining 1994 and 1995 losses for accounting purposes along with tax pools

acquired from another source and recorded gains of \$85.1 million. In 1997, the Company acquired \$200 million of capital losses from Canadian Pacific Limited for \$10.3 million plus a provision for price adjustment not to exceed \$56 million, contingent on future economic events. This \$10.3 million cost has been recorded as a charge to retained income. In 1997, the Company recorded gains of \$40.5 million in respect of the utilization of these losses. Certain additional benefits may accrue to the Company in future years.

At December 31, 1997, the Company's income tax pools were as follows:

(\$ millions)	
Undepreciated Capital Cost	\$ 1,043
Canadian Development Expense	435
Canadian Oil and Gas Property Expense	380
Foreign Exploration and Development Expense	58
Canadian Exploration Expense	25
Non-Capital Losses	176

10. SEGMENTED INFORMATION

The Company's only industry segment is the exploration for, and the development, production and marketing of, petroleum, natural gas and related products. In 1997, revenues and operating income in the United States amounted to \$1,415 million and

\$24 million, respectively, compared with \$998 million and \$34 million, respectively, in 1996. The net book value of identifiable assets in the United States was \$358 million in 1997 compared with \$434 million in 1996.

11. RETIREMENT PLANS

Substantially all of the Company's eligible employees are covered by a defined benefit or defined contribution pension plan. The Company also has non-contributory benefit plans that provide for supplemental payments to the extent that statutory

guidelines limit benefits under the defined benefit pension plan. The defined benefit plan provides pension based on length of service and final average earnings.

Net pension income includes the following components:

(\$ millions)	1997	1996	1995
Cost of employee benefits earned during the year	\$ 8.9	\$ 5.2	\$ 5.2
Interest cost on projected obligation	5.0	9.6	10.0
Expected return on plan assets	(8.6)	(11.1)	(11.8)
Amortization of net deferred gains	(8.7)	(6.3)	(3.4)
Pension income	\$ (3.4)	\$ (2.6)	\$ -

The following table sets forth the funded status of the defined benefit plans and the amounts recognized in the Company's consolidated balance sheet:

(\$ millions)	1997	1996
Pension fund assets at market-related value	\$ 126.9	\$ 161.9
Present value of obligation based on actuarial valuation	(83.2)	(109.6)
Pension fund assets in excess of projected obligation	43.7	52.3
Portion not recognized at December 31		
Unamortized portion of transition excess	(5.0)	(11.4)
Unamortized net gains	(15.1)	(39.1)
Deferred pension charge	\$ 23.6	\$ 1.8

Note: Amounts are being amortized over the expected average remaining service life of employees, which is currently 16 years.

Pension fund assets consist primarily of listed stocks and bonds. The estimated long-term rate of return on pension fund assets

and rate of pay increases are 7.5 percent and 5.0 percent, respectively.

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Unrecognized gains (losses) on risk management activities were as follows:

As at December 31 (\$ millions)	1997	1996
Crude oil – US\$22.0; 1996 US\$(83.2)	\$ 31.4	\$ (114.0)
Heavy oil differentials – US\$5.0; 1996 – US\$0.9	7.2	1.2
Natural gas	1.5	4.7
Foreign currency	(137.4)	125.8
Interest rates	61.7	94.1
	\$ (35.6)	\$ 111.8

a) Commodity Price Risk Management

Crude Oil As at December 31, 1997, the Company has sold forward, primarily using NYMEX West Texas Intermediate (“WTI”) futures contracts, approximately 11.2 million barrels of crude oil for delivery in 1998 for an average price of US\$19.46 per barrel. The unrealized gain at December 31, 1997, related to these sales was US\$22.0 million.

Heavy Oil As at December 31, 1997, over-the-counter (“OTC”) financial instruments are in place which fix the differential between WTI and heavy oil prices at US\$4.71 per barrel on 3.3 million barrels for 1998. As at December 31,

1997, the unrealized gain on these financial instruments was US\$5.0 million.

Natural Gas As at December 31, 1997, the unrealized gain on outstanding derivative instruments used to manage natural gas price exposures on both Company-produced and third-party purchased volumes was \$1.5 million.

b) Foreign Currency Risk Management

As at December 31, 1997, the following forward foreign currency exchange contracts were in place to hedge future commodity revenue streams:

Year	Amount (US\$ millions)	Average Exchange Rate (US\$ per Cdn\$)	Unrealized Loss December 31, 1997 (Cdn\$ millions)
1998	\$ 644.0	\$ 0.729	\$ (34.1)
1999	706.0	0.736	(41.8)
2000	570.0	0.739	(34.1)
2001	396.0	0.757	(35.9)
2002	422.0	0.747	(25.5)
2003	350.0	0.718	(0.7)
Total	\$ 3,088.0	\$ 0.737	\$ (169.9)

During 1995 and 1996, the Company terminated forward currency exchange contracts which resulted in PanCanadian receiving cash proceeds of \$53.0 million. The unamortized por-

tion of this gain at December 31, 1997, was \$32.5 million and will be recognized in income in the period in which the forward contracts would have matured as follows:

Year	(\$ millions)
1998	\$ 7.0
1999	6.6
2000	11.7
2001	7.2
Total	\$ 32.5

c) Interest Rate Risk Management

As at December 31, 1997, the Company had entered into forward foreign currency exchange contracts, interest rate swaps, cross-currency interest rate swaps and interest rate option transactions in order to manage the Company's interest rate and

foreign currency exposure on debt instruments. The impact of these transactions is described in Note 6 – Long-Term Debt. The unrealized gains (losses) on these outstanding financial instruments as at December 31, 1997 were:

Original debt instrument (\$ millions)	Principal	Interest	Total
10.55% debenture	\$ (4.8)	\$ 7.0	\$ 2.2
8.75% debenture	(5.6)	35.6	30.0
8.4% medium-term notes	(1.2)	15.0	13.8
7.645% medium-term notes	-	4.7	4.7
7.5% medium-term notes	(3.6)	14.6	11.0
	\$ (15.2)	\$ 76.9	\$ 61.7

d) Fair Value Of Financial And Derivative Instruments

The following table presents the carrying amounts and the fair value of the Company's financial and derivative instruments:

(\$ millions)	1997		1996	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and short-term investments	\$ 89.6	\$ 89.6	\$ 355.2	\$ 355.2
Accounts receivable and other	444.3	444.3	673.7	673.7
	533.9	533.9	1,028.9	1,028.9
Financial liabilities				
Accounts payable and accrued liabilities	(526.1)	(526.1)	(504.3)	(504.3)
Short-term financing	(44.3)	(44.3)	-	-
Long-term debt	(1,133.8)	(1,221.1)	(897.8)	(984.2)
Income taxes payable	(1.0)	(1.0)	2.0	2.0
	(1,705.2)	(1,792.5)	(1,400.1)	(1,486.5)
Derivative instruments				
Commodity futures	-	30.8	-	(98.6)
Commodity financial instruments	-	8.7	-	(7.0)
Interest rate swaps	-	47.8	-	65.1
Forward foreign currency contracts	-	(150.2)	-	82.4
	-	(62.9)	-	41.9
	\$ (1,171.3)	\$ (1,321.5)	\$ (371.2)	\$ (415.7)

The following methods and assumptions were used to estimate the fair value of each class of financial and derivative instrument:

- for certain of the Company's financial instruments, including cash and short-term investments, accounts receivable, accounts payable and accrued liabilities, and income taxes payable, the carrying amounts approximate the fair value due to the immediate or short-term maturity of these financial instruments;
- the fair value of publicly traded long-term debt is determined based upon market prices;
- the fair value of derivative instruments is estimated as the discounted unrealized gain or loss calculated based on market prices or rates, excluding unrecognized gains or

losses on hedge instruments terminated prior to their maturity; and

- although commodity futures are not financial instruments, they have been included, as they would represent a material financial asset if terminated.

e) Credit Risk

The Company is exposed to credit-related losses in the event of default by counterparties to financial instruments. Pan-Canadian does not expect any counterparties to fail to meet their obligations because of credit policies which limit transactions to counterparties of high credit quality. In addition, the Company does not believe that there is any significant concentrations of credit risk.

13. STATEMENT OF CHANGES IN CASH POSITION

a) Amounts not Requiring a Current Outlay of Cash

(\$ millions)	1997	1996	1995
Depletion, depreciation and amortization	\$ 552.9	\$ 611.6	\$ 527.9
Deferred income taxes	69.4	68.4	48.2
Gain on non-operating items	(0.5)	(26.4)	-
Other	9.7	1.4	1.0
	\$ 651.7	\$ 655.0	\$ 577.1

b) Net Changes in Non-Cash Working Capital

(\$ millions)	1997	1996	1995
Operating activities			
Accounts receivable	\$ 235.4	\$ (336.2)	\$ (86.2)
Inventories	(7.9)	7.2	(24.3)
Accounts payable and accrued liabilities	55.3	7.6	212.1
Income taxes payable	2.9	16.2	(17.4)
	\$ 285.7	\$ (305.2)	\$ 84.2
Financing activities			
Short-term financing	\$ 44.5	\$ -	\$ (0.3)
	\$ 44.5	\$ -	\$ (0.3)
Investing activities			
Accounts payable and accrued liabilities	\$ (33.5)	\$ 64.9	\$ (81.0)
	\$ (33.5)	\$ 64.9	\$ (81.0)

14. COMMITMENTS

The future commitments under operating leases for office space and equipment, and gas pipeline transportation agreements as at December 31, 1997, are as follows:

Year	(\$ millions)
1998	\$ 106.8
1999	126.5
2000	119.8
2001	111.4
2002	99.9
Thereafter to 2025	641.6

15. UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) in Canada and conform with those in the United States, except as follows:

a) Under the full cost method of accounting as defined by the Securities and Exchange Commission in the United States, costs accumulated in each cost centre are limited to an amount equal to the present value, discounted at 10 percent, of the estimated future net operating revenues from proved reserves (based on prices and costs at the balance sheet date, and after income taxes). Canadian GAAP provide for a similar calculation, the details of which are described in Note 1.

b) Under United States GAAP, the rate used for discounting pension benefits is the rate at which pension benefits could be currently settled. The rate used under Canadian GAAP is based on management's best estimate of the future return on the plan assets over the expected lifetime of the plan.

c) Under United States GAAP, unrealized exchange gains and losses arising on the translation of long-term debt denominated in foreign currencies are included immediately in income. Canadian GAAP provide that such gains and losses be deferred and amortized over the life of each debt instrument.

d) Under United States GAAP, deferred income taxes are reported on the liability method.

The impact of these differences on the Company's financial statements is summarized below:

Consolidated Statement Of Income

(\$ millions, except amounts per share)	1997	1996	1995
Net income as reported	\$ 329.7	\$ 345.8	\$ 227.8
Adjustments for			
Full cost accounting	1.8	25.4	17.2
Pension costs and obligations	(14.1)	1.5	2.1
Foreign exchange losses	(27.9)	(11.2)	18.2
Deferred income taxes	47.0	(6.0)	6.4
Net income under United States GAAP	\$ 336.5	\$ 355.5	\$ 271.7
Net income per share under United States GAAP	\$ 1.34	\$ 1.42	\$ 1.09

Consolidated Balance Sheet

(\$ millions)	Cdn. GAAP As Reported	Increase (Decrease)	Under U.S. GAAP
December 31, 1997			
Property, plant and equipment	\$ 8,839.8	\$ 210.8	\$ 9,050.6
Accumulated depletion, depreciation and amortization	4,039.6	97.1	4,136.7
Deferred charges and other assets	202.2	(28.8)	173.4
Deferred credits and liabilities	192.3	-	192.3
Deferred income taxes	1,093.2	80.8	1,174.0
Retained income	\$ 2,517.2	\$ 4.1	\$ 2,521.3
December 31, 1996			
Property, plant and equipment	\$ 7,223.3	\$ (11.8)	\$ 7,211.5
Accumulated depletion, depreciation and amortization	3,481.5	98.9	3,580.4
Deferred charges and other assets	113.3	22.6	135.9
Deferred credits and liabilities	156.2	1.8	158.0
Deferred income taxes	1,002.1	(87.2)	914.9
Retained income	\$ 2,298.4	\$ (2.8)	\$ 2,295.6



ALL CONVERSIONS OF GAS TO BARRELS OF OIL EQUIVALENT ARE
BASED ON 10,000 CUBIC FEET TO ONE BARREL OF OIL. ~~§~~ ALL
INFORMATION IS REPORTED ON A BEFORE ROYALTY BASIS. CERTAIN
PRIOR YEARS' FIGURES HAVE BEEN RECLASSIFIED TO CONFORM
WITH CURRENT YEAR REPORTING. ~~§~~ EFFECTIVE MAY 8, 1997, THE
COMPANY'S COMMON SHARES WERE SPLIT ON A TWO-FOR-ONE
BASIS. ~~§~~ ACQUISITION OF ALL OF THE SHARES OF CS RESOURCES
LIMITED WAS SUCCESSFULLY COMPLETED ON JULY 15, 1997. ~~§~~
EFFECTIVE JULY 1, 1997, PANCANADIAN SOLD ITS 25 PERCENT
INTEREST IN THE SAMOTLOR SERVICES PROJECT IN RUSSIA.

Statistical and Supplemental Information

(unaudited)

SUMMARY OF WORKING INTEREST LANDHOLDINGS

As at December 31, 1997 (thousand acres)	Developed		Undeveloped		Total	
	Gross	Net	Gross	Net	Gross	Net
<i>Canada</i>						
<i>Alberta</i>						
Fee	1,563.9	1,499.7	4,292.7	4,232.8	5,856.6	5,732.5
Crown	274.1	184.7	2,733.0	2,310.2	3,007.1	2,494.9
Freehold	10.8	5.0	78.6	60.8	89.4	65.8
	1,848.8	1,689.4	7,104.3	6,603.8	8,953.1	8,293.2
<i>British Columbia</i>						
Crown	0.2	–	575.2	444.7	575.4	444.7
<i>Saskatchewan</i>						
Fee	11.8	11.6	472.8	463.3	484.6	474.9
Crown	25.0	23.4	331.6	324.3	356.6	347.7
Freehold	48.1	31.9	244.5	202.3	292.6	234.2
	84.9	66.9	1,048.9	989.9	1,133.8	1,056.8
<i>Manitoba</i>						
Fee	0.3	0.3	269.1	264.6	269.4	264.9
Crown	–	–	–	–	–	–
	0.3	0.3	269.1	264.6	269.4	264.9
<i>Newfoundland and Labrador</i>						
Crown – Onshore	–	–	273.1	136.5	273.1	136.5
Crown – Offshore	28.0	2.1	1,996.2	812.9	2,024.2	815.0
	28.0	2.1	2,269.3	949.4	2,297.3	951.5
<i>Northwest Territories and Yukon Territory</i>						
Crown	31.8	12.1	–	–	31.8	12.1
<i>Nova Scotia</i>						
Crown – Offshore	18.6	9.3	281.3	281.3	299.9	290.6
<i>Quebec</i>						
Crown	–	–	750.7	750.7	750.7	750.7
<i>Total Canada</i>						
Fee	1,576.0	1,511.6	5,034.6	4,960.7	6,610.6	6,472.3
Crown	377.7	231.6	6,941.1	5,060.6	7,318.8	5,292.2
Freehold	58.9	36.9	323.1	263.1	382.0	300.0
	2,012.6	1,780.1	12,298.8	10,284.4	14,311.4	12,064.5
<i>International</i>						
South Africa	–	–	14,500.3	2,900.1	14,500.3	2,900.1
Libya	–	–	1,281.2	960.9	1,281.2	960.9
United Kingdom	–	–	1,088.5	285.6	1,088.5	285.6
Australia	–	–	808.0	249.4	808.0	249.4
United States	5.7	1.2	98.0	52.4	103.7	53.6
Venezuela	–	–	10.4	5.2	10.4	5.2
	5.7	1.2	17,786.4	4,453.6	17,792.1	4,454.8
Total	2,018.3	1,781.3	30,085.2	14,738.0	32,103.5	16,519.3

Notes:

1. This table excludes 3,270,975 gross acres under lease or sublease, reserving to PanCanadian royalties or other interests.
2. Fee lands are those owned by PanCanadian and in which the Company retains a working interest.
3. Crown lands are owned by the federal or provincial governments or the First Nations, in which PanCanadian has purchased a working interest lease.
4. Freehold lands are owned by individuals other than the Crown or PanCanadian, in which PanCanadian holds a working interest lease.
5. This table includes 364,650 gross and 280,422 net acres acquired by the acquisition of CS Resources Limited in July 1997.

DRILLING

	1997		1996		1995		1994		1993	
(number of wells)	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
<i>Working Interest</i>										
<i>Exploratory</i>										
Oil	110	109	117	110	91	82	42	38	16	14
Gas	252	250	94	90	128	127	110	104	66	62
Service	9	6	—	—	5	5	2	2	5	4
Dry	145	138	139	133	109	99	99	86	97	83
	514	505	350	333	333	313	253	230	184	163
<i>Development</i>										
Oil	661	563	521	450	479	413	336	251	454	323
Gas	455	434	278	254	248	222	496	458	469	443
Service	107	98	21	18	29	27	8	6	17	12
Dry	83	73	51	40	64	52	36	29	59	41
	1,306	1,168	871	762	820	714	876	744	999	819
	1,820	1,671	1,221	1,095	1,153	1,027	1,129	974	1,183	982
<i>Royalty Interest</i>										
Exploratory	54		55		61		138		98	
Development	754		663		519		787		435	
	808		718		580		925		533	
Total Wells	2,628		1,939		1,733		2,054		1,716	
Canada	2,622		1,933		1,728		2,045		1,714	
United Kingdom	3		2		—		—		—	
Australia	2		1		—		—		1	
The Netherlands	1		3		—		3		—	
Libya	—		—		4		6		1	
Indonesia	—		—		1		—		—	
Total Wells	2,628		1,939		1,733		2,054		1,716	

Note: Net wells are the sum of PanCanadian's fractional interest in gross wells.

DRILLING SUCCESS

	1997		1996		1995		1994		1993	
(percent)	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
<i>Working Interest Wells</i>										
Exploratory	72	73	60	60	68	68	61	63	47	49
Development	94	94	94	95	92	95	96	96	94	95
Total	88	87	84	84	85	85	88	88	87	87

Note: Service wells are included in the success rate.

1997 RESERVES

	Conventional Crude Oil	Natural Gas Liquids	Natural Gas
	(thousand barrels)	(thousand barrels)	(billion cubic feet)
<i>Proved Reserves January 1</i>	274,038	34,315	2,644
Extensions and discoveries	46,094	3,213	476
Improved recoveries	22,017	–	–
Revisions of previous estimates	(2,464)	1,397	46
	65,647	4,610	522
Purchases of reserves in place	97,050	822	49
Sales of reserves in place	(10,315)	(4,314)	(111)
Net additions	152,382	1,118	460
Production	(46,286)	(4,823)	(272)
<i>Proved Reserves December 31</i>	580,134	30,610	2,832
<i>Undeveloped included in above at December 31</i>	54,362	1,029	454
<i>Royalty Interest included in above at December 31</i>	22,884	4,026	298
<i>Probable Reserves January 1</i>	107,152	6,859	771
Extensions and discoveries	6,978	1,050	107
Improved recoveries	(1,016)	–	–
Revisions of previous estimates	644	(10)	(94)
	6,606	1,040	13
Purchases of reserves in place	110,510	393	19
Sales of reserves in place	(5,110)	(712)	(23)
<i>Probable Reserves December 31</i>	219,158	7,580	780
<i>Royalty Interest included in above at December 31</i>	6,874	710	94

Notes:

1. Reserves estimates were calculated by the Company's engineers, and in the case of CS Resources Limited's reserves, Dobson Resource Management Ltd.
2. Proved reserves are those quantities of crude oil, natural gas, and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable from known oil and gas reservoirs under existing economic and operating conditions.
3. Probable reserves are those additional quantities estimated to be recoverable from known oil and gas reservoirs, but which lack, for various reasons, the certainty required to classify the reserves as proved.
4. International reserves at December 31 included above are as follows:

	Natural Gas Liquids	Natural Gas
	United Kingdom	United Kingdom
<i>Proved</i>	133	9
<i>Probable</i>	44	3

5. The costs required to develop undeveloped reserves are estimated at \$303 million.

PROVED RESERVES REPLACEMENT AS A PERCENT OF PRODUCTION

(percent)	1997	1996	1995	1994	1993
<i>Before Acquisitions and Dispositions</i>					
Conventional crude oil	142	133	198	128	153
Natural gas liquids	96	113	86	176	203
Conventional crude oil and natural gas liquids	137	131	186	132	157
Natural gas	192	112	153	214	144
Barrels of oil equivalent	156	125	174	160	153
<i>Including Acquisitions and Dispositions</i>					
Conventional crude oil	329	162	208	128	146
Natural gas liquids	23	110	86	176	154
Conventional crude oil and natural gas liquids	300	157	195	133	146
Natural gas	169	106	158	218	64
Barrels of oil equivalent	255	141	182	161	118

Note: Reserves replacement is reserves additions divided by annual production.

RESERVES LIFE INDEX

(years)	1997	1996	1995	1994	1993
<i>Proved Reserves</i>					
Conventional crude oil	8.2	5.6	5.7	5.0	5.3
Natural gas liquids	6.5	6.9	6.6	8.9	8.9
Conventional crude oil and natural gas liquids	8.0	5.8	5.8	5.3	5.6
Natural gas	10.4	10.1	10.1	11.3	10.8
Barrels of oil equivalent	8.9	7.2	7.3	7.3	7.4
<i>Proved Plus Probable Reserves</i>					
Conventional crude oil	12.9	7.8	7.9	7.3	7.9
Natural gas liquids	7.9	8.3	7.8	10.2	10.4
Conventional crude oil and natural gas liquids	12.5	7.9	7.9	7.6	8.1
Natural gas	13.3	13.0	12.6	14.4	13.9
Barrels of oil equivalent	12.8	9.6	9.6	9.9	10.1

Note: Reserves life index is year-end reserves divided by annual production.

PROVED RESERVES

	Conventional Crude Oil	Natural Gas Liquids	Natural Gas
	(thousand barrels)	(thousand barrels)	(billion cubic feet)
<i>December 31, 1992</i>	170,441	29,652	2,291
Extensions and discoveries	31,010	2,420	200
Improved recoveries	15,742	295	7
Revisions to previous estimates	7,004	4,477	87
Purchases of reserves in place	5,128	22	5
Sales of reserves in place	(7,568)	(1,766)	(168)
Production	(35,250)	(3,534)	(205)
<i>December 31, 1993</i>	186,507	31,566	2,217
Extensions and discoveries	28,140	4,839	419
Improved recoveries	18,095	503	6
Revisions to previous estimates	4,391	1,522	47
Purchases of reserves in place	790	55	9
Sales of reserves in place	(685)	(34)	(2)
Production	(39,532)	(3,903)	(220)
<i>December 31, 1994</i>	197,706	34,548	2,476
Extensions and discoveries	64,117	1,740	373
Improved recoveries	15,475	21	(1)
Revisions to previous estimates	5,392	2,640	25
Purchases of reserves in place	6,466	245	26
Sales of reserves in place	(2,442)	(220)	(12)
Production	(42,866)	(5,120)	(260)
<i>December 31, 1995</i>	243,848	33,854	2,627
Extensions and discoveries	44,281	2,162	272
Improved recoveries	16,137	94	1
Revisions to previous estimates	4,293	3,357	20
Purchases of reserves in place	16,064	187	23
Sales of reserves in place	(2,008)	(358)	(37)
Production	(48,577)	(4,981)	(262)
<i>December 31, 1996</i>	274,058	34,315	2,644
Extensions and discoveries	46,094	3,213	476
Improved recoveries	22,017	-	-
Revisions to previous estimates	(2,464)	1,397	46
Purchases of reserves in place	97,050	822	49
Sales of reserves in place	(10,315)	(4,314)	(111)
Production	(46,286)	(4,823)	(272)
<i>December 31, 1997</i>	380,134	30,610	2,832

DAILY AVERAGE PRODUCTION AND SALES

	1997	1996	1995	1994	1993
<i>Crude Oil and Field Natural Gas Liquids (barrels)</i>					
<i>Canada</i>					
Crude oil	124,912	128,829	112,784	103,649	92,418
Field natural gas liquids	13,213	13,608	14,028	10,692	9,693
	138,125	142,437	126,812	114,341	102,111
International	1,898	3,894	4,657	4,659	4,202
Total crude oil and field natural gas liquids	140,023	146,331	131,469	119,000	106,313
<i>Empress Plants (barrels)</i>					
Production	13,184	11,577	12,674	13,421	16,621
Sales	12,675	12,432	12,981	13,490	16,715
<i>Natural Gas (million cubic feet)</i>					
Production	744	722	719	605	565
Sales	725	717	713	603	563
Synthetic Crude Oil (barrels)	—	8,724	20,136	19,069	18,340

Notes:

1. Royalty interest production included in the above table is as follows:

	1997	1996	1995	1994	1993
Conventional crude oil	13,072	11,953	11,777	10,448	10,375
Field natural gas liquids	2,552	2,458	2,669	2,206	1,901
Natural gas	99	95	103	90	89

2. International is comprised of production from the Russian joint enterprise from 1993 to 1997.

PRODUCING WELLS

	Oil		Gas		Total	
As at December 31, 1997	Gross	Net	Gross	Net	Gross	Net
<i>Canada</i>						
Alberta	5,438	3,869	5,585	5,062	11,023	8,931
Saskatchewan	2,168	1,257	50	28	2,218	1,285
British Columbia	128	9	12	5	140	14
Nova Scotia	16	8	—	—	16	8
International	4	1	1	—	5	1
Total	7,754	5,144	5,648	5,095	13,402	10,239

Notes:

1. Includes gross and net wells producing or capable of producing in which PanCanadian had a working interest.

2. PanCanadian also has varying royalty interests in 7,413 oil wells and 7,218 gas wells which are producing or are capable of producing, the majority of which are in Alberta.

PRODUCT PRICES

(dollars per unit)	1997	1996	1995	1994	1993
<i>Crude Oil (per barrel)</i>					
Conventional	\$ 21.17	\$ 24.47	\$ 20.17	\$ 17.35	\$ 16.48
Hedging	(0.91)	(2.45)	(0.14)	(0.11)	(0.09)
	\$ 20.26	\$ 22.02	\$ 20.03	\$ 17.24	\$ 16.39
<i>Natural Gas (per thousand cubic feet)</i>					
Sales	\$ 1.99	\$ 1.60	\$ 1.25	\$ 1.84	\$ 1.65
Hedging	0.08	(0.19)	0.01	0.08	(0.02)
	\$ 2.07	\$ 1.41	\$ 1.26	\$ 1.92	\$ 1.63
Field Natural Gas Liquids (per barrel)	\$ 20.58	\$ 18.08	\$ 14.06	\$ 12.76	\$ 14.21
Empress Plants (per barrel)	\$ 23.18	\$ 22.71	\$ 17.20	\$ 15.42	\$ 17.02
Synthetic Crude Oil (per barrel)	\$ —	\$ 26.66	\$ 23.78	\$ 21.84	\$ 21.20

OPERATING REVENUE ANALYSIS

(\$ millions)	1997	1996	Increase (Decrease)		Variance	
			Amount	%	Price	Volume
<i>Crude Oil</i>						
Conventional	\$ 979.7	\$ 1,188.4	\$ (208.7)	(18)	\$ (159.7)	\$ (49.0)
Hedging	(42.0)	(118.9)	76.9	65	76.9	-
	937.7	1,069.5	(131.8)	(12)	(82.8)	(49.0)
Synthetic	-	85.2	(85.2)	(100)	-	(85.2)
	937.7	1,154.7	(217.0)	(19)	(82.8)	(134.2)
<i>Natural Gas</i>						
Sales	527.3	418.7	108.6	26	105.1	3.5
Hedging	20.9	(49.5)	70.4	(142)	70.4	-
	548.2	369.2	179.0	48	175.5	3.5
<i>Field Natural Gas Liquids</i>	99.2	90.1	9.1	10	12.0	(2.9)
<i>Empress Plants</i>	112.0	104.5	7.5	7	5.9	1.6
<i>Other</i>	53.8	35.7	18.1	51	18.3	(0.2)
	\$ 1,750.9	\$ 1,754.2	\$ (3.3)	-	\$ 128.9	\$ (132.2)

OPERATING EXPENSES

(\$ millions)	1997	1996	1995	1994	1993
<i>Crude Oil</i>					
Conventional	\$ 504.9	\$ 258.4	\$ 177.1	\$ 144.9	\$ 129.6
Synthetic crude oil	-	50.1	103.1	106.7	104.8
<i>Natural Gas and Related Products</i>	81.1	75.1	74.6	65.1	56.9
<i>Gas Processing – Royalty Interest</i>	12.0	13.8	14.9	13.8	16.3
<i>Empress Plants</i>	65.2	52.4	50.0	58.9	52.9
<i>Other</i>	11.2	6.3	8.2	3.1	-
	\$ 474.4	\$ 456.1	\$ 427.9	\$ 392.5	\$ 360.5

UNIT OPERATING EXPENSES

(dollars per unit)	1997	1996	1995	1994	1993
<i>Conventional Crude Oil – Western Canada (per barrel)</i>	\$ 6.47	\$ 5.19	\$ 4.55	\$ 4.05	\$ 4.17
<i>Natural Gas and Related Products (per thousand cubic feet)</i>	0.34	0.33	0.33	0.35	0.33
<i>Per Barrel of Oil Equivalent</i>	5.60	4.69	3.87	3.65	3.61
<i>Synthetic Crude Oil (per barrel)</i>	-	15.69	14.02	15.33	15.66
<i>Empress Plants (per barrel)</i>	14.08	11.51	10.55	11.96	8.68

Note: Unit costs are based on working interest operations.

NETBACKS

<i>(dollars per unit)</i>	1997	1996	1995	1994	1993
<i>Conventional Oil (per barrel)</i>					
Revenues	\$ 21.24	\$ 24.69	\$ 20.12	\$ 17.27	\$ 16.36
Crown royalties and similar payments	(2.59)	(2.52)	(2.20)	(1.62)	(1.37)
	18.65	22.17	17.92	15.65	14.99
Expenses					
Operating	6.57	5.35	4.08	3.64	3.70
Administrative	1.46	1.14	1.23	1.30	1.23
	8.03	6.49	5.31	4.94	4.93
Netback	\$ 10.62	\$ 15.68	\$ 12.61	\$ 10.71	\$ 10.06
<i>Natural Gas (per thousand cubic feet)</i>					
Revenues	\$ 1.99	\$ 1.60	\$ 1.25	\$ 1.84	\$ 1.65
Crown royalties and similar payments	(0.07)	(0.10)	(0.11)	(0.10)	(0.10)
	1.92	1.50	1.14	1.74	1.55
Expenses					
Operating	0.35	0.34	0.34	0.36	0.36
Administrative	0.07	0.06	0.09	0.10	0.09
	0.42	0.40	0.43	0.46	0.45
Netback	\$ 1.50	\$ 1.10	\$ 0.71	\$ 1.28	\$ 1.10

Note: Netbacks are based on Canadian operations and exclude the hedging program.

DEPLETION, DEPRECIATION AND SITE RESTORATION RATES

<i>(per barrel of oil equivalent)</i>	1997	1996	1995	1994	1993
Depletion	\$ 5.04	\$ 4.65	\$ 4.70	\$ 4.69	\$ 4.63
Depreciation	2.15	2.05	1.94	1.82	1.59
	7.17	6.70	6.64	6.51	6.22
Site restoration	0.32	0.36	0.30	0.30	0.30
	\$ 7.49	\$ 7.06	\$ 6.94	\$ 6.81	\$ 6.52

Note: Amounts exclude production from Syncrude, Empress, Russia, and international writedowns and are based on working interest volumes.

FINDING AND DEVELOPMENT COSTS

<i>(\$ millions, except as indicated)</i>	1997	1996	1995	1994	1993
<i>Western Canada</i>					
Exploration and development expenditures	\$ 964.1	\$ 622.6	\$ 826.0	\$ 758.0	\$ 517.6
Capitalized administrative expenses	(42.2)	(29.7)	(35.0)	(31.4)	(26.4)
	\$ 921.9	\$ 592.9	\$ 791.0	\$ 726.6	\$ 491.2
Proved reserves added <i>(million boe)</i>	120.2	96.8	127.4	103.0	88.2
Finding and development costs <i>(\$/boe)</i>					
Annual	\$ 7.67	\$ 6.13	\$ 6.21	\$ 7.06	\$ 5.57
Three-year simple average	\$ 6.67	\$ 6.46	\$ 6.28	\$ 5.60	\$ 5.33
Three-year weighted average	\$ 6.70	\$ 6.45	\$ 6.31	\$ 5.82	\$ 5.30
<i>Consolidated</i>					
Exploration and development expenditures	\$ 1,114.6	\$ 693.3	\$ 865.5	\$ 810.1	\$ 548.8
Capitalized administrative expenses	(42.4)	(31.0)	(35.7)	(32.0)	(26.4)
	\$ 1,072.2	\$ 662.3	\$ 829.8	\$ 778.1	\$ 522.4
Proved reserves added <i>(million boe)</i>	122.5	99.6	129.1	104.6	90.4
Finding and development costs <i>(\$/boe)</i>					
Annual	\$ 8.75	\$ 6.65	\$ 6.43	\$ 7.44	\$ 5.78
Three-year simple average	\$ 7.28	\$ 6.84	\$ 6.55	\$ 5.87	\$ 5.53
Three-year weighted average	\$ 7.30	\$ 6.81	\$ 6.57	\$ 6.09	\$ 5.50

Note: Proved reserves added exclude acquisitions and dispositions.

CAPITAL EXPENDITURES

(\$ millions)	1997	1996	1995	1994	1993
<i>Exploration and Development</i>					
<i>Canada</i>					
Land acquisition and rental	\$ 65.3	\$ 28.6	\$ 30.6	\$ 38.9	\$ 37.7
Geological and geophysical	82.7	80.6	77.4	105.9	72.7
Exploration drilling	198.8	151.8	159.6	141.7	75.9
Development drilling	313.8	175.7	218.7	182.4	170.5
Production facilities and equipment	323.3	208.7	348.4	295.1	160.8
	985.9	645.4	834.7	764.0	517.6
<i>International</i>					
Land acquisition and rental	24.3	—	—	—	2.1
Geological and geophysical	26.1	21.1	7.6	6.1	8.6
Exploration drilling	75.2	21.1	16.1	30.8	12.3
Development drilling	3.0	5.7	8.0	6.3	6.1
Production facilities and equipment	0.1	—	(0.9)	2.9	2.1
	128.7	47.9	30.8	46.1	31.2
	1,114.6	693.3	865.5	810.1	548.8
<i>Other</i>					
Empress	10.0	17.0	16.8	3.4	3.0
Miscellaneous	11.6	45.2	82.6	40.3	34.9
	21.6	62.2	99.4	43.7	37.9
	1,136.2	755.5	964.9	853.8	586.7
<i>Acquisitions</i>	631.1	144.0	93.4	22.2	40.0
<i>Dispositions</i>	(209.2)	(458.9)	(47.6)	(18.0)	(141.8)
	421.9	(314.9)	45.8	4.2	(101.8)
Total	\$ 1,558.1	\$ 440.6	\$ 1,010.7	\$ 858.0	\$ 484.9
<i>International</i>					
United Kingdom	\$ 47.8	\$ 18.1	\$ —	\$ —	\$ —
United States	44.8	—	—	—	—
Australia	16.7	3.0	1.0	0.4	5.6
The Netherlands	6.6	11.7	5.8	23.6	4.3
Venezuela	4.1	—	—	—	—
Russia	3.1	5.8	7.0	9.2	7.9
Other	5.6	9.3	17.0	12.9	13.4
	\$ 128.7	\$ 47.9	\$ 30.8	\$ 46.1	\$ 31.2

QUARTERLY RESULTS

(\$ millions, except per share amounts)	First	Second	Third	Fourth	Total
<i>1997</i>					
Revenues	\$ 909.9	\$ 747.0	\$ 792.9	\$ 950.3	\$ 3,400.1
Cash Flow	280.5	210.2	216.2	254.5	961.4
Per share	1.12	0.83	0.86	1.01	3.82
Net Income	133.3	68.1	56.9	69.4	329.7
Per share	0.54	0.27	0.23	0.27	1.31
<i>1996</i>					
Revenues	\$ 715.0	\$ 652.0	\$ 586.4	\$ 1,004.2	\$ 2,957.6
Cash Flow	229.3	229.8	204.2	337.5	1,000.8
Per share	0.92	0.92	0.81	1.34	3.99
Net Income	86.0	66.0	71.6	122.2	345.8
Per share	0.34	0.27	0.28	0.49	1.38

SENSITIVITY ANALYSIS

	Sensitivity (rate of change)	Estimated 1998 Effect (\$ millions)	
		Net Income	Cash Flow
Crude Oil and Natural Gas Liquids	US\$1.00 per barrel (WTI)	\$ 30	\$ 51
Natural Gas	Cdn\$0.10 per thousand cubic feet	18	27
Exchange	US\$0.01 per Cdn\$	6	9

Notes:

1. WTI – West Texas Intermediate crude oil.
2. This includes hedging activities.
3. Sensitivity analysis is based on the following assumptions:
 - average price for WTI oil of US\$18.00 per barrel;
 - average price for natural gas of \$1.75 per thousand cubic feet; and
 - average exchange rate of US\$0.73 per Cdn\$1.00.

CONSOLIDATED BALANCE SHEET

As at December 31 (\$ millions)	1997	1996	1995	1994	1993
<i>Assets</i>					
Current assets	\$ 607.4	\$ 1,096.5	\$ 531.0	\$ 341.4	\$ 296.4
Property, plant and equipment – net	4,800.2	3,741.8	3,857.8	3,358.4	2,877.7
Deferred charges, net of amortization, and other assets	202.2	113.3	137.9	71.3	40.4
	\$ 5,609.8	\$ 4,951.6	\$ 4,526.7	\$ 3,751.1	\$ 3,214.5
<i>Liabilities and Shareholders' Equity</i>					
Current liabilities	\$ 571.2	\$ 504.3	\$ 453.2	\$ 301.5	\$ 209.3
Long-term debt	1,153.7	897.8	862.2	472.3	283.0
Deferred credits and liabilities	192.3	156.2	137.2	84.1	69.2
Deferred income taxes	1,093.2	1,002.1	933.7	885.5	834.1
Shareholders' equity	2,619.4	2,391.2	2,140.4	2,007.9	1,818.9
	\$ 5,609.8	\$ 4,951.6	\$ 4,526.7	\$ 3,751.1	\$ 3,214.5

CONSOLIDATED STATEMENT OF CHANGES IN CASH POSITION

For the years ended December 31 (\$ millions)	1997	1996	1995	1994	1993
<i>Operating Activities</i>					
Net income	\$ 329.7	\$ 345.8	\$ 227.8	\$ 287.3	\$ 231.0
Amounts not requiring a current outlay of cash	631.7	655.0	577.1	476.1	388.2
Cash flow	961.4	1,000.8	804.9	763.4	619.2
Net change in deferred items	(77.0)	42.3	(22.2)	(24.8)	7.6
Net change in non-cash working capital	285.7	(305.2)	84.2	(68.2)	18.6
	1,170.1	737.9	866.9	670.4	645.4
<i>Financing Activities</i>					
Increase (decrease) in long-term debt	225.8	33.6	397.9	181.3	(75.8)
Dividends	(100.6)	(100.4)	(100.3)	(100.2)	(93.8)
Other	53.7	5.4	4.7	1.9	7.0
	176.9	(61.4)	302.3	83.0	(162.6)
<i>Investing Activities</i>					
Capital expenditures	(1,558.1)	(440.6)	(1,010.7)	(858.0)	(484.9)
Net change in other assets	(21.0)	(26.7)	(36.9)	(10.6)	8.2
Net change in non-cash working capital	(33.5)	64.9	(81.0)	61.9	23.7
	(1,612.6)	(402.4)	(1,128.6)	(806.7)	(453.0)
<i>Increase (Decrease) in Cash</i>	(265.6)	274.1	40.6	(53.3)	29.8
<i>Cash at Beginning of Year</i>	355.2	81.1	40.5	93.8	64.0
<i>Cash at End of Year</i>	\$ 89.6	\$ 355.2	\$ 81.1	\$ 40.5	\$ 93.8

Note: Cash is comprised of cash and short-term investments, net of current bank indebtedness.

CONSOLIDATED STATEMENT OF INCOME

For the years ended December 31 (\$ millions)	1997	1996	1995	1994	1993
<i>Revenues</i>					
Operating					
Oil	\$ 937.7	\$ 1,069.5	\$ 858.4	\$ 681.5	\$ 578.2
Gas	560.1	372.9	327.8	424.2	333.8
Field liquids	99.2	90.1	71.9	49.8	50.3
Synthetic crude oil	—	85.2	174.8	152.1	142.0
Empress plants	112.0	104.5	79.3	74.7	81.6
Lease rentals	6.1	5.8	4.3	4.7	3.3
Processing	11.6	9.6	9.2	9.9	7.3
Other	36.1	20.3	19.7	9.9	(0.3)
Internal usage	(11.9)	(3.7)	—	—	—
	1,750.9	1,754.2	1,545.4	1,406.8	1,196.2
Crown royalties and similar payments	(141.8)	(171.6)	(162.3)	(108.8)	(91.6)
	1,609.1	1,582.6	1,383.1	1,298.0	1,104.6
Marketing	1,629.5	1,144.8	445.9	162.2	—
Interest and other	19.7	58.6	21.9	12.2	13.9
	3,258.3	2,786.0	1,850.9	1,472.4	1,118.5
<i>Expenses</i>					
Operating					
Oil	304.9	258.4	177.1	144.9	129.6
Gas and related products	81.1	75.1	74.6	65.1	56.9
Gas processing – royalty interest	12.0	13.8	14.9	13.8	16.3
Synthetic crude oil	—	50.1	103.1	106.7	104.8
Empress plants	65.2	52.4	50.0	58.9	52.9
Other	23.1	10.0	8.2	3.1	—
Internal usage	(11.9)	(3.7)	—	—	—
	474.4	456.1	427.9	392.5	360.5
Purchased product	1,602.4	1,098.1	426.3	156.7	—
Administrative					
Upstream	84.3	65.6	71.1	67.8	58.8
Marketing and other	26.7	24.8	16.4	6.7	3.8
Interest	67.4	62.7	59.3	35.8	30.1
Depreciation and amortization	175.8	185.3	169.2	131.8	112.9
Depletion	377.1	356.3	325.6	291.6	254.4
Writedown of assets	—	70.0	33.1	—	—
	2,808.1	2,318.9	1,528.9	1,082.9	820.5
Income Before Income Taxes	450.2	467.1	322.0	389.5	298.0
Provision For Income Taxes					
Current	51.1	52.9	46.0	50.8	46.8
Deferred	69.4	68.4	48.2	51.4	20.2
	120.5	121.3	94.2	102.2	67.0
Net Income	\$ 329.7	\$ 345.8	\$ 227.8	\$ 287.3	\$ 231.0

The following information is prepared in accordance with the United States Financial Accounting Standards Board Statement No. 69 entitled "Disclosures about Oil and Gas Producing Activities."

CONVENTIONAL OIL AND GAS ACTIVITIES

(\$ millions)	1997	1996	1995	1994	1993
<i>Capitalized Costs</i>					
Conventional petroleum and natural gas properties	\$ 8,481.1	\$ 6,891.2	\$ 6,119.0	\$ 5,216.2	\$ 4,245.0
Accumulated depletion, depreciation and amortization	(3,925.3)	(3,380.1)	(2,858.1)	(2,372.1)	(2,017.0)
	4,557.8	3,511.1	3,280.9	2,844.1	2,228.0
Other (net)	242.4	230.7	576.9	494.3	650.0
	\$ 4,800.2	\$ 3,741.8	\$ 3,857.8	\$ 3,338.4	\$ 2,878.0
<i>Costs Incurred in Conventional Oil and Gas Activities</i>					
Purchase of producing properties	\$ 651.1	\$ 143.9	\$ 95.2	\$ 14.9	\$ 40.0
Property acquisitions, net of dispositions	(62.7)	(15.8)	(3.9)	33.1	(70.7)
Exploration	382.7	266.2	232.8	272.0	163.4
Development	585.5	370.4	566.2	493.8	318.1
	\$ 1,556.4	\$ 764.7	\$ 888.3	\$ 813.8	\$ 450.8
<i>Results of Operations for Conventional Producing Activities</i>					
Gross operating revenues	\$ 1,481.5	\$ 1,413.5	\$ 1,151.5	\$ 1,064.1	\$ 878.9
Operating expenses	(412.5)	(366.9)	(287.9)	(222.8)	(201.2)
Depletion, depreciation and amortization	(537.0)	(505.2)	(443.6)	(381.6)	(333.6)
Writedown of assets	—	(70.0)	(33.1)	—	—
	531.8	471.4	386.9	459.7	344.1
Income taxes	(145.1)	(36.7)	(67.5)	(107.4)	(78.6)
	\$ 386.7	\$ 434.7	\$ 319.4	\$ 352.3	\$ 265.5

STANDARDIZED MEASURE OF DISCOUNTED FUTURE NET CASH FLOWS (UNAUDITED)

(\$ millions)	1997	1996	1995
Future cash inflows	\$ 12,221.0	\$ 14,068.7	\$ 8,727.7
Future production and development costs	(3,725.9)	(3,198.0)	(2,483.9)
Future income tax expenses	(2,631.5)	(3,739.4)	(1,907.6)
Future net cash flows	5,863.6	7,131.3	4,336.2
10% annual discount for estimated timing of cash flows	(2,181.0)	(2,760.7)	(1,588.3)
Standardized measure of discounted future net cash flows	\$ 3,682.6	\$ 4,370.6	\$ 2,747.9

The following table sets out the principal sources of change in the standardized measure of discounted future net cash flows:

(\$ millions)	1997	1996	1995
Standardized measure of discounted future net cash flows at beginning of year	\$ 4,370.6	\$ 2,747.9	\$ 2,216.4
Add (deduct)			
Revisions of previous estimates	350.5	(147.8)	11.9
Additions to proved reserves, net of capital and production costs	920.8	1,097.8	924.9
Acquisition of producing reserves, net of dispositions	341.0	70.4	34.4
Net changes in prices and production costs	(2,393.5)	2,369.0	169.1
Expenditures that reduced estimated future development costs	36.9	40.0	41.4
Accretion of discount	596.1	345.8	290.3
Sales of oil and gas produced, net of production costs and mineral taxes	(1,253.7)	(1,043.0)	(854.5)
Net changes in income taxes	713.9	(1,109.5)	(86.0)
	(688.0)	1,622.7	531.5
Standardized measure of discounted future net cash flows at year-end	\$ 3,682.6	\$ 4,370.6	\$ 2,747.9

The standardized measure of future net cash flows is computed by applying year-end sales prices, or scheduled prices if contractual arrangements so provide, to the related net proved reserve quantities, less deductions for future costs which will be required to develop and produce those reserves, and estimated future income taxes. The result is discounted at an annual rate to derive discounted future net cash flows. The Financial Accounting Standards Board acknowledges that the standardized measure of discounted net cash flows cannot be considered an estimate of fair market value. Inclusion of this table should not be interpreted as indicating PanCanadian's probable measure of fair market value or future economic position.

THE TORONTO AND OTHER STOCK EXCHANGES HAVE ESTABLISHED GUIDELINES FOR EFFECTIVE CORPORATE GOVERNANCE. THE GUIDELINES ADDRESS MATTERS SUCH AS THE DUTIES AND RESPONSIBILITIES OF DIRECTORS, THE COMPOSITION AND STRUCTURE OF BOARDS, THE NOMINATION AND ASSESSMENT OF BOARDS AND THEIR MEMBERS, AND THE INDEPENDENCE OF BOARDS FROM MANAGEMENT. PANCANADIAN'S BOARD OF DIRECTORS ("BOARD") BELIEVES THAT THE PRACTICES DESCRIBED BELOW, DEVELOPED OVER THE COURSE OF THE COMPANY'S EVOLUTION, PROVIDE FOR SOUND CORPORATE GOVERNANCE.

Corporate Governance

DUTIES AND RESPONSIBILITIES

The Board is ultimately responsible for the direction and stewardship of the Company to ensure sustained growth in shareholder value. In carrying out its responsibilities, the Board monitors the principal risks of the business and operations of the Company and reviews and approves:

- the strategic plan and the corporate budget and forecast brought to it by management on an annual basis;
- significant capital investments outside the approved budget and forecast;
- the Annual Report and all other disclosure materials sent to the Shareholders or released to the public in general; and
- management decisions that may have a significant impact on the Company, its employees or other stakeholders.

Four committees assist the Board in its stewardship role. Specific terms of reference have been adopted by the Board to establish the roles and responsibilities of each committee:

- The Audit Committee supports the Board's stewardship responsibilities by reviewing the systems in place to assure the integrity of the Company's internal controls. In doing so, the Audit Committee meets independently with each of management, the manager of internal audit and PanCanadian's independent auditors.
- The Corporate Governance and Nominating Committee ("Governance Committee") is responsible for the development and amendment of the terms of reference for each committee, in consultation with the Chair of the applicable committee, and is the body charged with responsibility for all matters related to corporate governance.
- The Executive Committee acts in place of the Board when necessary. In particular, this Committee reviews the release of quarterly financial and operating information to the public.
- The Human Resources Management and Compensation Committee ("Human Resources Committee") develops and recommends to the Board annual and long-term financial and operating objectives, or targets, for the Company. This Committee monitors the performance of management in relation to the approved targets. Also, the Committee oversees the management and administration of the employee pension plans and examines succession planning issues on an annual basis.

BOARD COMPOSITION AND STRUCTURE

Only one member of the Board, namely the Chief Executive Officer, is a member of management and is therefore related to the Company; all others are considered unrelated and non-management Directors. Under the guidelines, if a Director is related to a significant shareholder of the Company, that relationship alone is not sufficient for that Director to be considered related to the Company. PanCanadian's Chairman of the Board and another Director are executive officers of Canadian Pacific Limited ("Canadian Pacific"), which beneficially owns approximately 87 percent of the issued shares of PanCanadian. One other Director of the Company is past Chairman and Chief Executive Officer of Canadian Pacific; he and another Director of the Company are also directors of Canadian Pacific. One-half of the members of the Board have no relationship with or material interest in PanCanadian or Canadian Pacific, other than in their capacity as members of the Board.

The members of PanCanadian's Audit, Governance and Human Resources Committees are all non-management Directors and are unrelated to the Company. Only one member of the Executive Committee, the Chief Executive Officer, is related to the Company.

The Board considers that its size, at 10 members, is within an appropriate range.

BOARD NOMINATION AND ASSESSMENT

The Governance Committee is responsible for proposing all nominees to the Board and its committees, and for assessing the performance of the Board and of individual Directors when deemed necessary by the Chairman of the Board. This Committee also oversees the orientation of new Directors and continuing education of incumbents, informing them of the nature of the Company's business and the issues it faces as well as the obligations of their position. The Governance Committee periodically reviews the compensation paid to members of the Board to ensure that it is commensurate with the level of responsibility borne by the members. Directors may engage the services of outside advisors at the Company's expense in circumstances considered appropriate by the Governance Committee.

BOARD INDEPENDENCE FROM MANAGEMENT

The Chief Executive Officer of PanCanadian has general supervision over the business of the Company under its By-Laws, subject to the limits on the Chief Executive Officer's authority as established by the Board. The Chief Executive Officer reports to the Board and to the Chairman. Management responsibility is delegated to the Company's executive officers through the Chief Executive Officer; this delegation is not formalized by written descriptions of duties and responsibilities.

The Chairman of the Board, or any other Board member, may request a meeting without management present. The Board and its Committees in fact do meet independently of management on a regular basis, particularly on individual performance and compensation issues.

Five-Year Statistical Review

	1997	1996	1995	1994	1993
<i>Financial Results (\$ millions, except as indicated)</i>					
Revenues	\$ 5,400.1	\$ 2,957.6	\$ 2,013.2	\$ 1,581.2	\$ 1,210.1
Cash flow	961.4	1,000.8	804.9	763.4	619.2
Per share (\$)	3.82	3.99	3.21	3.05	2.48
Net income	529.7	545.8	227.8	287.3	251.0
Per share (\$)	1.51	1.38	0.91	1.15	0.93
<i>Financial Ratios</i>					
Debt to capital	22.5%	20.2%	21.2%	13.7%	9.4%
Return on average shareholders' equity	15.2%	15.3%	11.0%	15.0%	13.2%
Return on average capital employed	10.4%	12.1%	9.5%	13.4%	12.0%
Net debt to cash flow	109%	54%	97%	57%	31%
Net interest coverage	10.8	10.8	7.3	14.0	13.1
<i>Capital Expenditures (\$ millions)</i>	\$ 1,558.1	\$ 440.6	\$ 1,010.7	\$ 858.0	\$ 484.9
<i>Proved Plus Probable Reserves</i>					
<i>Crude oil and field natural gas liquids (thousand barrels)</i>					
Crude oil	599,292	581,190	358,247	289,381	277,449
Field natural gas liquids	58,190	41,174	40,040	39,884	36,737
Synthetic crude oil	—	—	237,870	245,800	157,322
Natural gas (billion cubic feet)	3,612	3,415	3,296	3,172	2,860
<i>Daily Production and Sales</i>					
<i>Crude oil and field natural gas liquids (barrels)</i>					
Canada					
Crude oil	124,912	128,829	112,784	103,649	92,418
Field natural gas liquids	13,213	13,608	14,028	10,692	9,693
	158,125	142,437	126,812	114,341	102,111
International	1,898	3,894	4,657	4,659	4,202
Total crude oil and field natural gas liquids	140,023	146,331	131,469	119,000	106,313
<i>Empress plants (barrels)</i>					
Production	13,184	11,577	12,674	13,421	16,621
Sales	12,675	12,432	12,981	13,490	16,715
<i>Natural gas (million cubic feet)</i>					
Production	744	722	719	605	565
Sales	725	717	713	603	563
<i>Synthetic crude oil (barrels)</i>					
	—	8,724	20,136	19,069	18,340
<i>Undeveloped Canadian Landholdings (thousands)</i>					
Gross acres	12,299	10,420	7,860	7,435	7,472
Net acres	10,284	8,599	7,153	6,757	6,605
<i>Shares and Dividends</i>					
Number of shares outstanding (millions)	251.7	251.2	250.8	250.4	250.4
Dividends per share (\$)	0.40	0.40	0.40	0.40	0.38
<i>Share price (\$)</i>					
High	30.70	27.50	27.00	22.375	24.188
Low	20.60	23.00	18.50	18.50	16.563
Close	23.00	27.05	26.625	20.125	19.063
Employees at year-end	1,951	1,719	1,574	1,483	1,402

Corporate Information

As of February 26, 1998

DIRECTORS

J. M. Beddome ¹
Calgary, Alberta
Corporate Director and
Independent Businessman

Dian N. Cohen ²
Montreal, Quebec
President
Dian Cohen Productions Limited

William R. Fatt ^{1,2}
Calgary, Alberta
Chairman and Chief Executive Officer
Canadian Pacific Hotels and
Resorts Corporation

Barry W. Harrison ²
Calgary, Alberta
President and Chief Executive Officer
Eastgate Minerals Ltd.

G. Donald Love ^{3,4}
Toronto, Ontario
President
GDL Enterprises Inc.

Ken F. McCready ^{1,3}
Calgary, Alberta
President
K.F. McCready & Associates Ltd.

David P. O'Brien ^{1,3,4}
Calgary, Alberta
Chairman, President and
Chief Executive Officer
Canadian Pacific Limited

R. Ross Smith ^{2,4}
Winnipeg, Manitoba
Retired Executive

William W. Stinson ⁴
Calgary, Alberta
Chairman, Executive Committee
United Dominion Industries Limited

David A. Tuer ¹
Calgary, Alberta
President and Chief Executive Officer
PanCanadian Petroleum Limited

OFFICERS

David P. O'Brien
Chairman

David A. Tuer
President and
Chief Executive Officer

Paul W. Ellis
Senior Vice President
International

Mackenzie M. L. Kwan
Senior Vice President and
Chief Financial Officer

Nancy M. Laird
Senior Vice President
Marketing

Gerald J. Macey
Senior Vice President Exploration
and Environmental Officer

Gerard J. Protti
Senior Vice President
Operations

J. Joseph Doolan
Treasurer

Terence M. Lawrence
Vice President
Human Resources

Christopher Saunders
Comptroller

Laurie J. Schuller
Corporate Secretary

MAJOR SUBSIDIARIES,

PARTNERSHIPS AND AFFILIATES

WHOLLY OWNED SUBSIDIARIES

CS Resources Holdings Ltd.

PanCanadian Energy Inc.

PanCanadian Gulf of Mexico Inc.

PanCanadian Petroleum
(Australia) Limited

PanCanadian Petroleum
(Africa) Limited

PanCanadian North Sea Limited

PanCanadian Petroleum
Venezuela S.A.

WHOLLY OWNED PARTNERSHIPS

National Gas & Electric L.P.

PanCanadian Resources

Skyline Resources

OTHER

Kinetic Resources (LPG)	75%
Kinetic Resources (U.S.A.)	75%
Kingston CoGen Limited Partnership	25%
Panarctic Oils Ltd.	8%

¹ Member of Executive Committee

² Member of Audit Committee

³ Member of Human Resources Management and Compensation Committee

⁴ Member of Corporate Governance and Nominating Committee

The Annual General Meeting of
Shareholders will take place in the
Crystal Ballroom of the Palliser Hotel,
Calgary, Alberta, on Thursday,
April 16, 1998, at 11 a.m.

Annual General Meeting

The Management Proxy Circular
and Form of Proxy are being mailed to
each shareholder with this report.

Head Office

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Calgary, Alberta T2P 5H9

Mailing Address

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Shares Listed

The Alberta Stock Exchange
Montreal Exchange
The Toronto Stock Exchange

Registrar and Transfer Agent

CIBC Mellon Trust Company
Calgary, Montreal, Toronto
1-800-587-0825

Auditors

Price Waterhouse
Chartered Accountants
Calgary, Alberta

For Further Information

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(403) 290-2000
Investor Relations
(403) 290-3550

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A Proud Legacy. A Global Perspective. And Unlimited Potential.



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